Austria	Sch30	Iran	Ris210	Pakistan	Rs35
Bahrain	Din0.800	Israel	Shk4.50	Philippines	Pso40
Belgium	BFr60	Italy	L2200	Poland	Zl 11,000
Cyprus	C£1.00	Jordan	JD1.20	Portugal	Es175
Denmark	DKr13	Korea	Won 2800	Qatar	QR10.00
Egypt	E£3.50	Kuwait	Fils.500	S.Arabia	SR8.00
Finland	FM8.50	Lebanon	L£1,000	Singapore	S$4.10
France	FFr7.50	Lux	LFr60	Spain	Pta175
Germany	DM3.00	Malta	45 cents	Sweden	SKr13
Greece	Dr200	Morocco	MDh10	Switz	SFr2.70
Hungary	Ft145	Neth	Fl 3.50	Thailand	Bht50
Iceland	IKr190	Nigeria	Naira15	Tunisia	Din0.800
India	Rs28	Norway	NKr13.00	Turkey	L3000
Indonesia	Rp3100	Oman	OR1.20	UAE	Dh8.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

FT No. 31,440

Monday April 29 1991

D 8523A

WORLD BANK

Challenge to foster human capital

Page 16

World News | Business Summary

Baker peace conference plan rejected by Shamir

Yitzhak Shamir, Israeli prime minister, has rejected a US proposal for an open-ended Middle East peace conference, a move likely to cause tension between the two countries. Page 18

EC coal aid blocked

The European Commission is withholding £100m ($169m) in grants for British coal mining communities until the UK government explains how it is using EC aid. Page 18

Ethiopia peace move

Senior US envoys met the embattled President Mengistu Haile Mariam of Ethiopia at the weekend in an initiative aimed at preventing the country's civil war engulfing the capital Addis Ababa. Page 3

Minister sacked

President Roh Tae Woo of South Korea has sacked his home minister in an attempt to defuse anger over the death of a student at the hands of riot police. Page 3

Guatemalans talk on

The first stage of peace talks between the Guatemalan government and left-wing rebels appears to have ended successfully at the weekend. Page 2

Mrs Mandela loses

Winnie Mandela, on trial in South Africa for kidnapping and assault, was unexpectedly defeated at the weekend in an election to a senior post in the African National Congress. Page 3

Rocard visit

French prime minister Michel Rocard today begins a visit to New Zealand seen as important in improving the two countries' troubled relationship. Page 4

Militia stands down

Lebanon's second strongest militia group, the Druze Progressive Socialist Party, handed over tanks, artillery and ammunition to Syrian troops in line with a Beirut government peace plan.

Saharan peace hope

A solution to the conflict over the status of the former Spanish colony of the Western Sahara which for 15 years, has pitted Morocco against the Polisario Liberation Front appears to be in sight. Page 3

Epidemic toll rises

The death toll in a diarrhoea disease epidemic sweeping Bangladesh has reached nearly 750.

China executes 15

Authorities in eastern China publicly executed 15 people for crimes including murder, robbery and rape, according to local reports, as part of Peking's current anti-crime campaign.

Six die in Zulu riot

Some three thousand Zulu Inkatha sympathisers wielding spears and knives swarmed out of a funeral rally at a stadium in Soweto and attacked residents, killing at least 6.

US crime surge

Violent crimes in the US jumped 10 per cent in 1990, continuing a six-year surge fuelled by more murders and a wave of drug-related incidents, the FBI reported.

Tamil attack fails

Tamil rebels killed 26 soldiers and wounded 48 in an unsuccessful bid to dislodge the Sri Lankan army from its base at Elephant Pass, military officials said.

Train protest

Trains were disrupted after eight district council members lay across the tracks of Hong Kong's light rail system in a protest at a proposed fare increase.

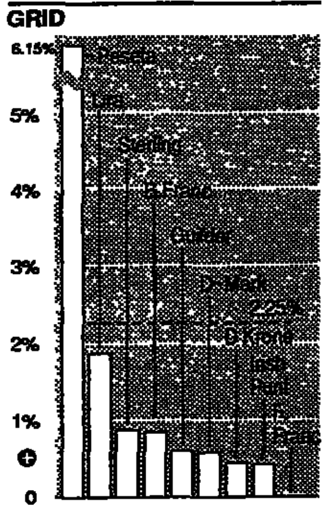
Japan warns US over construction restrictions

TOKYO warned it may retaliate if Washington restricts Japanese contractors' involvement in US government-funded projects, as a means to open Japan's construction market.

A US announcement that sanctions would be imposed after 30 days, unless a market-opening agreement were achieved, angered Japanese officials, who say the threat will hinder bilateral negotiations on the construction market. Page 18

EUROPEAN MONETARY SYSTEM: Sterling was volatile, showing vulnerability to political risk ahead of this week's local elections and the impact of a wider UK current account deficit for March, falling to fourth strongest in the exchange rate mechanism. Other ERM currencies traded steadily, with the Spanish peseta remaining the strongest and French franc the weakest.

EMS GRID April 26, 1991



The chart shows member currencies of exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise by more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate within 6 per cent fluctuation bands.

US is seeking to develop the Group of Seven framework of regular economic discussions into a mechanism for more frequent political co-ordination among the leading industrial countries. Page 2

INVESTIGATION at the New York futures exchange has suggested several Brazilian coffee exporters may have made use of insider trading before suspension of Brazilian coffee export registrations last month. Page 2

MALAYSIA has failed to win endorsement from visiting Japanese Prime Minister Toshiki Kaifu on a controversial proposal to set up the proposed East Asian Economic Group (EAEG), a new Asian economic group. Page 3

NORMAN Lamont, UK chancellor of the exchequer, will this week seek international backing for a plan to ease the debt burden of the poorest developing nations. Page 2

AIR Canada, caught by the international slump in business and consumer travel, has asked Boeing to cancel orders and options on a long list of aircraft. Page 21

MITSUKOSHI, Japanese department store operator, reported 12.3 per cent increase in pre-tax profit to Y19.33bn ($139m) in the year to end February. Page 21

NORANDA, Canada's biggest resource group, is selling nearly C$500m ($431m) of assets to keep its consolidated long-term debts of C$4.4bn under control. Page 21

China demands right to vet Hong Kong appeal judges

By John Elliott in Hong Kong

CHINA is demanding the right to have a big say in the appointment of all judges to a court of final appeal to be set up in Hong Kong before the colony returns to Chinese sovereignty in 1997.

This has been resisted by the UK and is being attacked by senior lawyers in the territory who believe it shows that Peking intends to try to undermine the colony's judicial independence.

China is believed to want to vet the names of judges appointed to the proposed new court before it takes Hong Kong back from Britain. It also wants to restrict the appointment of non-Chinese permanent judges, as well as expatriate judicial experts.

This could lead to a further diplomatic row with Britain, which fears international confidence in Hong Kong will be hit if businessmen lose faith in the territory's legal system.

Mr Anthony Rodgers, chairman of the Hong Kong Bar Association, said last night: "Any attempt to influence the appointment of judges before 1997 will whittle away at the powers of the court of final appeal. It goes to the root of judicial independence."

China's demands are similar to its stance over Hong Kong's planned HK$100bn ($12.7bn) airport. In both cases it is demanding consultations and consensus on key issues that straddle the 1997 handover.

Hong Kong, backed by the UK, has been resisting this, arguing that any insistence on consensus would amount to virtual control. But at some stage a compromise solution will be attempted.

The final appeal court is to be set up, probably with five permanent judges, to replace Britain's Privy Council which at present hears final appeals from Hong Kong. This is contained in the 1984 Sino-British Joint Declaration on the 1997 handover and in the Basic Law which will govern Hong Kong.

These documents promise judicial independence "free from any interference" after 1997. The Basic Law says that judges should be appointed after 1997 by Hong Kong's chief executive "on the recommendation of an independent commission".

Britain had assumed that China would not try before 1997 to influence the choice of judges who are picked by an existing judicial services commission. But China has told the Sino-British joint liaison group, which is preparing for the handover, that it has a right to a say because it will inherit the judges.

It has been putting forward names of Chinese lawyers and solicitors to support its argument, and to try to offset the fact that there are only three ethnic Chinese among the High Court's 25 judges. China has also insisted that the opening of the final appeal court should be delayed from next year till 1994. Lawyers fear that this will seriously reduce the court's ability to build up a track record before 1997.

US, Germany fail to solve dispute over interest rates

By Peter Norman, Stephen Fidler and Peter Riddell in Washington

THE US and Germany yesterday failed to resolve their dispute over American demands for lower German interest rates, but sought to paper over the cracks as the Group of Seven leading industrial nations began talks on the future of the world economy in Washington yesterday.

Immediately before the G7 met, President George Bush told finance ministers and central bank governors from the countries involved – Japan, Germany, France, Britain, Italy and Canada in addition to the US – that his administration wanted lower rates to foster global growth.

The president's unusual intervention, demonstrating that US concern about the risk of worldwide recession exists at the highest political level, appeared to pass without acrimony. A British official described the White House gathering as "friendly and informal". Mr Theo Waigel, the German finance minister, said "there was no reproaching the Germans."

However, the cordial nature of yesterday's discussions could not conceal a fundamental difference in the way that the US, Germany and some other G7 members view future economic policy priorities. Mr Nicholas Brady, the US Treasury Secretary, in setting the agenda for yesterday's meeting, asked the G7 to discuss the prospects for "low inflationary growth". UK and German officials repeated yesterday that their objective was "non-inflationary growth."

Before the White House meeting, the German and US delegations met bilaterally to air their differences over the US demand for lower German interest rates. The talks were "open", according to one German official, meaning that they were not hostile. They agreed that there were many other issues on which the two countries saw eye to eye.

Speaking afterwards, both Mr Waigel and Mr Karl Otto Pöhl, the Bundesbank president, made clear that the German delegation had delivered a robust defence of German economic and monetary policies, including the present level of German interest rates.

The German stand was backed by Mr Ryutaro Hashimoto, the Japanese finance minister, who told Mr Brady in a separate meeting that Japan was not ready to alter its present economic policies.

However, Germany made clear that it had no objections to other countries easing monetary policy when they had scope to do so. "In the medium term, we are all interested in lower interest rates," Mr Waigel said. "But there are differences between countries and we must have inflation-free growth."

This theme was echoed by Mr Norman Lamont, the UK chancellor of the exchequer, who pointed out that Britain had been able to lower its real and nominal interest rates considerably in recent months. "That is a process which has the prospect of continuing as and when inflation comes down later in the year," a UK official said.

In defending German policies, Mr Pöhl said that German interest rates were the lowest in the European Community and hardly any other country in the world had achieved such a positive combination of strong growth and low inflation in recent months.

Continued on Page 18
Background Page 18; Economics Notebook, Page 19

An unusual intervention from President George Bush

The US is seeking to develop the Group of Seven framework of regular economic discussions into a mechanism for more frequent political co-ordination among the leading industrial countries, Peter Riddell writes.

The idea has been floated as a means of involving Japan and the European Community more closely in international political discussions. Page 2

EC backs plan for UN police to protect Kurds

David Buchan in Mondorf-les-Bains, Luxembourg and John Murray Brown in Ankara

EUROPEAN Community foreign ministers yesterday backed Britain's proposal for a United Nations police force to provide Kurdish refugees with protection on their return to Iraq.

Their decision at a meeting in southern Luxembourg came as Western military officials prepared to extend the security zone in northern Iraq further east yesterday. Officials confirmed that allied forces were already 30km east of Zakho, the Iraqi town at the centre of the safe havens plan.

Brigadier Andrew Keeling of the British Royal Marines said the forces were ready to extend the zone "as far as we feel necessary to give adequate protection."

The plan is now to push further east into the main valleys along the Iraqi-Turkish border where the largest concentrations of refugees fled following Baghdad's crushing of the shortlived Kurdish rebellion.

The UK marine commander said the military was ready, but was still waiting on a political decision. He added the logical step would then be to push further south, Anatolia, the official Turkish news agency reported.

In Mondorf-les-Bains, Mr Jacques Poos, foreign minister of Luxembourg, which has the EC presidency, said the British idea to replace allied troops with UN police had unanimous EC support. But some of Britain's partners were sceptical of the UK belief that it could be done without a fresh UN resolution.

Mr Douglas Hurd, the UK foreign secretary, said: "The idea is to enable the UN, without stretching its constitutional position, to provide protection as well as relief for the Kurds." The plan would go to New York as a British initiative, but with the support of France and Belgium, currently on the Security Council and all EC states.

Explaining that the UK did not want to keep its troops in southern Turkey and northern Iraq for more than "a relatively small number of months", Mr Hurd expressed the hope that the despatch of lightly-armed police, rather than soldiers, might be possible under UN Resolution 688. The resolution passed earlier this month seeks an end to Baghdad's repression of its citizens.

He was not confident that a fully-fledged UN peacekeeping force, as sent to southern Iraq, would receive Security Council backing.

Mr Hurd believed that eventually the Kurdish refugees would be persuaded to come off the mountains and return home. He agreed that unarmed UN aid workers might not appear sufficient security for the Kurds. But if the UN police idea was approved, Mr Hurd said it should be possible for it to be covered in the understandings that Prince Sadruddin Aga Khan, the UN High Commissioner for Refugees, has reached with the Bagdhad government.

There were signs yesterday the UN may be indeed be preparing for a larger role in the operation. A UN team visited the new sites for the first time, before having talks with local Iraqi officials.

Mr Stefan Demistura, head of the three-man UN team, said: "This is a preparatory

Continued on Page 18

Yeltsin in effort to persuade striking coal miners to return

By John Lloyd in Moscow

MR BORIS YELTSIN, president of the Russian Federation, will today seek to persuade striking coal miners to return to work, after agreeing the basis of a settlement in talks with miners' leaders in Moscow at the weekend.

Aides said he would pledge to ensure that control of their pits would pass from the Soviet central authorities to the Russian Federation.

On a visit to the Kuzbass coalfield in western Siberia, the country's largest coal area, he is also expected to tell the miners that he has won for them the right to vote in elections for the Soviet (union) government later this year and that they will be able to sell some of their coal on world markets for hard currency.

The Russian leader had committed himself to trying to persuade the miners to go back to work when he signed a statement with Mr Mikhail Gorbachev, the Soviet leader, and eight other republican leaders last Tuesday.

Mr Yeltsin won the backing of the Russian parliament to his agreement with Mr Gorbachev yesterday, when it voted by 152 to seven for a resolution which noted "the importance of the document for the destiny of Russia's peoples".

General Dmitri Volkogonnov, the military historian and biographer of Joseph Stalin, likened the pact to the Treaty of Brest Litovsk, signed in 1918, which ceded large territories to Germany in return for peace. He said the agreement was a "bold step", but unless stabilisation measures were urgently pursued, "the entire work would be reduced to zero."

Mr Yeltsin will remain in the coalfields until Wednesday – May Day – when the official representatives of Soviet power will take the traditional parade in Red Square, a feature of which will be a march-past by the official unions.

The contrast between the two events marks the opening round in the Russian leader's campaign for his election as president of the Russian republic by popular vote, to take place on June 12 – the first such election in Russia's history.

He faces continued criticism from his allies for signing an agreement which, as well as calling for an end to strikes, commits him to support the Soviet government's anti-crisis economic programme, and to back an undefined "special regime" in key industrial and transport sectors.

Deputies said over the weekend that they believed this latest policy would involve the firing of workers for absenteeism and other breaches of discipline.

However, Mr Gorbachev on Friday annulled an amendment passed last month by the Supreme Soviet allowing managers at state-owned factories to dismiss workers without asking for trade union permission beforehand.

US rethinking Moscow policy, Page 2

CONTENTS

THE MONDAY INTERVIEW

The chief complexity facing Karl Otto Pöhl, president of the Bundesbank, is that his autonomy — both vis-à-vis the politicians in Bonn and in the decision-making of the bank itself — is clearly circumscribed
Page 34

FT SURVEYS THIS WEEK

Polish President Lech Walesa

Poland

The challenge before the new post-communist Poland is how to remedy the defects of its previous system of government and consolidate sovereignty and prosperity while the going is good.

TODAY:
Foreign Exchange: The dollar's sharp rise since February and the weakness of the D-mark have shown again how the foreign exchange market is good for surprises. But changes in the market could mean its boom years are over. *Separate section.*

TUESDAY:
Singapore: The republic's success as an entrepôt trading nation has given it a standard of living second only to Japan in Asia. But many sections of the island republic's multi-racial society seek change.

FRIDAY:
Poland: see *illustration left.*

SATURDAY:
Franchising: Recession tests claims that franchising really is the safer way to start in business.

Washington accepts that approach to encouraging reform has failed

US rethinking Moscow policy

By Peter Riddell and Lionel Barber in Washington

THE Bush administration now accepts that its approach to encouraging economic reform in the Soviet Union has failed and that new methods will have to be adopted.

A senior official said the attempt to stimulate reform through the International Monetary Fund-led study of last December "did not work", because President Mikhail Gorbachev had been unable or unwilling to grasp the proposals for a movement to a market economy.

This reflects pessimism within the administration about the prospects both for reform and for Mr Gorbachev's survival. US officials are beginning to hedge their bets by talking about contacts with conservatives in the armed forces and defence industries as well as with reformers, such as Mr Eduard Shevardnadze, the former Soviet foreign minister. Mr Shevardnadze is due to deliver an important address in Washington in 10 days.

US officials have not given up hope on the possibility of a union treaty between Moscow and republics such as the Ukraine, Kazakhstan, Byelorussia and the Russian federation by the end of the year. But even if this is achieved, the question remains of whether a reform programme can be worked out and implemented.

The administration has been forced to review its approach by the marked deterioration in the Soviet economy in the last few months, and the continuing power struggle.

The proposal in the December report for the Soviet Union to have associate status with the IMF and the World Bank – to assist its integration into the international financial community – has now been put on the "back-burner", according to Mr David Mulford, the US Treasury undersecretary for international affairs.

The main US priority is to sustain economic and political reform in eastern and central Europe and to insulate those countries as far as possible from the growing economic problems to their east. The US has pressed its allies to be supportive of these countries.

Democrats warned on banking reform

By Peter Riddell, US Editor, in Washington

MR Nicholas Brady, the US treasury secretary, will this week attempt to save as much as possible of his comprehensive banking reform legislation after warning House Democratic leaders against pursuing their plan for a narrow bill excluding changes in the structure of the industry.

Congressmen Henry Gonzalez and Frank Annunzio, Democratic chairmen of the House banking committee and a key sub-committee, have introduced legislation proposing recapitalising the financially strained bank insurance fund, new bank accounting standards and tighter supervision of problem banks.

This would omit the Treasury's proposals for interstate branch banking and for allowing bank holding companies to become involved in a wide range of financial services.

Mr Brady has described as "the height of folly" the suggestion that any legislation this year should be restricted to recapitalising the fund. "We should reform the industry and fix the problem, not just feed it and fund it."

The issue of the scope of banking legislation will come to a head in this week's talks aimed a producing a compromise.

Mr Brady argues that a majority of the House banking committee, including the minority Republican caucus, joined by a number of Democrats, have expressed support for the need for comprehensive bank reform, in contrast to the views of their leaders. This view is also supported by all the banking regulators, including Mr Alan Greenspan, the Federal Reserve chairman, in spite of reservations on detailed features.

Senate banking committee members are more sympathetic to Mr Brady's position.

Ana Guadalupe Martinez and other FMLN guerrilla leaders sign an agreement with the El Salvador government in Mexico City at the weekend on constitutional reforms – but this did not involve a ceasefire. Also in Mexico, the first stage of peace talks between the Guatemalan government and left-wing rebels ended with an agreement on ground rules for further discussions.

● GROUP OF SEVEN MEETING IN WASHINGTON

British plan for poor countries' debts

By Peter Norman, Economics Correspondent, in Washington

MR Norman Lamont, the UK Chancellor of the Exchequer, will this week seek international backing for a British plan to ease the debt burden of the poorest developing nations.

The plan, known as the Trinidad Terms, is designed to cut and make more manageable the debts owed to western governments by poor nations implementing market-oriented economic policies.

It was first proposed by Mr John Major, when chancellor, at a conference of Commonwealth finance ministers last autumn, and will be relaunched during the spring meetings today and tomorrow of the International Monetary Fund and World Bank with the aim of reaching agreement at the London Economic Summit in July.

Under the Trinidad Terms, members of the Paris Club of creditor governments would forgive two thirds of the qualifying country's official debt and grant extended repayment terms for the remainder.

Last week Mr Barber Conable, World Bank president, supported the UK plan. It is expected that the chancellor will argue in tomorrow's session of the joint IMF-World Bank development committee that action to help the poorest countries is urgent in the light of the recent Paris Club decision to forgive 50 per cent of Poland's official debt.

The UK is also seeking a more influential role in the committee. The government has proposed that Mr Peter Mountfield, a Treasury undersecretary, should be the committee's next executive secretary.

The committee was set up in 1974 and is made up of government representatives from developed and third world countries. Its job is to promote the transfer of resources to the developing world. The executive secretary is responsible for planning, organising and reporting on its work.

US wants to develop use of G7 talks

THE US is seeking to develop the Group of Seven framework of regular economic discussions into a mechanism for more frequent political co-ordination among the leading industrial countries, Peter Riddell writes.

The idea has been floated by Mr Robert Kimmitt, US Undersecretary of State for political affairs, as a means of involving Japan and Germany, as well as the European Community, more closely in international political discussions. None is a permanent member of the UN Security Council, whose role was enhanced by the Gulf crisis.

At present, the heads of government of the G7 – the US, Japan, Germany, Britain, France, Canada and Italy, with the EC attending – meet annually and issue a political statement to accompany their economic communiqué. These political discussions are held only once a year but the G7 finance ministers meet on at least four other occasions to review economic policy co-ordination, as they did yesterday.

The US wants this regular framework of economic consultation to be matched on the political side. Mr Kimmitt is expected to raise the idea at a meeting in Hong Kong this week of G7 political directors (senior foreign ministry officials) in preparation for the annual summit – this year in London in mid-July.

Mr Kimmitt argues that the success of the Gulf coalition has underlined the importance of collective political action: "But now the true test is to see if we can prepare for and avert crises. The G7 is the one agency that, we believe, can be useful to meet more frequently and more regularly to anticipate and avert political crises."

The US has been pondering for some time how to involve Japan and Germany more closely in political discussions; the problem was underlined by the Gulf crisis. Not only were these countries outside the UN Security Council, they were also being asked to contribute financially to US efforts without having had a say in decisions.

An expansion of the political role of the G7 is seen by senior State Department officials as a way to broaden and make more politically acceptable calls for sharing burdens or responsibilities.

Peru debt talks

EFFORTS to erase Peru's \$2.1bn (£1.24bn) in arrears to multilateral financial institutions are to resume today in Washington, Stephen Fidler writes.

Countries and organisations friendly to Peru are to meet as finance officials gather for the spring meetings of the IMF and the World Bank. Neither institution, nor the Inter-American Development Bank, can lend in support of Peru's economic reform programmes until it has cleared the arrears.

Brady's tight schedule calls for some fast talking

US Treasury Secretary Nicholas Brady is either a harsh taskmaster or an incurable optimist.

He packed no fewer than seven items onto the agenda of yesterday's Group of Seven meeting, even though it began only at 11.30am and was to end at 5.15pm. The most contentious issue – the world economy and the policies to be pursued to ensure low inflationary growth – was given 1¼ hours at the beginning. A discussion on exchange markets was then scheduled over an hour-long working lunch.

Trade and financial issues relating to eastern Europe were allocated 50 minutes to 2.50pm, and ministers and central bank governors were then expected to polish off long-term developments in the Middle East in the 40 minutes to 3.30.

Some 50 minutes were alloted to the international debt question, including how best to help Egypt and how to avoid granting too favourable debt forgiveness terms to too many countries. The 25 minutes to 4.45 were deemed enough to deal with relations between the Soviet Union and the so-called IFIs – bodies such as the IMF and World Bank. In the final half-hour the 21 assembled finance ministers, central bankers and top treasury officials were due to discuss the communiqué.

Agendas are flexible and not everyone talks. But if the schedule held firm and only the seven finance ministers opened their mouths, they would have had 13 minutes each to discuss Mr Brady's wish for lower interest rates and a mere 3½ minutes each to address the Soviet Union's future links to the IFIs.

G7 DIARY

We can only guess what G7 new boy Donald Mazankowski made of this. Mr Mazankowski ("Maz") was appointed Canadian finance minister a week ago. Known as "minister for everything", because of the large number of government offices he has held since 1979, Maz is said to be as hard-working as his predecessor, Michael Wilson, who despite taking over Canada's trade and industry portfolio will be chairing today's meeting of the IMF policymaking interim committee.

Maz is a grassroots politician and has had only limited dealings with economic issues. But this should be no handicap. Among the finance ministers, France's Pierre Bérégovoy, Japan's Ryutaro Hashimoto and Germany's Theo Waigel came to their present jobs from non-financial backgrounds.

□□□□□

Karl Otto Pöhl, the German Bundesbank president, seems to be developing some affection for European economic and monetary union. Speaking to the G7 Council, a talking shop of the great and the good, he recalled that the feathered variety of Emu has two characteristics: it can't fly and can only go forward. That specification would suit Mr Pöhl, who doesn't want to rush union. "So there is some reason for optimism," he said.

□□□□□

Mongolia, one of the newest members of the IMF and World Bank, is in dire need of their help. The landlocked country of 2m people is facing a balance-of-payments crisis. In the first half of the year, its current account deficit could be as high as \$200m. One of the main problems is that the Soviet Union now wants payment for oil in hard currency. A mission from the Fund is due there soon, and the World Bank is sending a team in July.

□□□□□

The application in January by Albania to join the two institutions leaves only three sizeable countries outside their sphere of influence. Although the question of the Soviet Union's membership is likely to be put off for some time, the institutions are regularly sending missions there. The countries without applications pending are a rather odd mix: Cuba, North Korea and Brunei.

□□□□□

The World Bank's new chief economist, Larry Summers, already has at the age of 35 a pretty impressive resumé. Eight years ago he became professor at Harvard University, said to have been the youngest so appointed. If Michael Dukakis was now in the White House, Summers would have almost certainly been the head of his Council of Economic Advisors. He has made his first public pronouncements since joining the bank over the past week, suggesting that he will not be afraid to tackle some of the broad issues now facing the bank – such as the link between economic performance and democracy.

Of the statistics he is fond of quoting, he points to one as the most striking: that infant mortality is higher and life expectancy lower in New York City than in Shanghai. The Chinese, he notes, spend only 5 per cent of their \$500 annual per capita income on health care.

Here is another: eliminating all cancer would add three years to the life expectancy of Americans.

In the third world, Yemen, Sri Lanka and Indonesia have about the same per capita income. Yet life expectancy in Yemen is 51 years, in Indonesia 60 and Sri Lanka 70.

Peter Norman
Stephen Fidler

The Financial Times (Europe) Ltd
Published by the Financial Times (Europe) Ltd., Frankfurt Branch, (Guiollettstrasse 54, 6000 Frankfurt-am-Main 1: Telephone 069-75980; Fax 069-722677; Telex 416193 represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, R.A.F. McClean, G.T.S. Damer, A.C. Miller, D.E.P. Palmer, London. Printer: Frankfurter Societaets-Druckerei-GmbH, Frankfurt/Main. Responsible editor: Richard Lambert, Financial Times, Number One Southwark Bridge, London SE1 9HL. The Financial Times Ltd, 1991.

Registered office: Number One, Southwark Bridge, London SE1 9HL. Company incorporated under the laws of England and Wales. Chairman: D.E.P. Palmer. Main shareholders: The Financial Times Limited, The Financial News Limited. Publishing director: B. Hughes, 168 Rue de Rivoli, 75044 Paris Cedex 01. Tel: (01) 4297 0621; Fax: (01) 4297 0629. Editor: Richard Lambert. Printer: SA Nord Eclair, 15/21 Rue de Caire, 59100 Roubaix Cedex 1. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

Financial Times (Scandinavia) Vimmelskaftet 42A, DK-1161 Copenhagen-K, Denmark. Telephone (33) 13 44 41. Fax (33) 935335.

INTERNATIONAL NEWS

US envoys meet Mengistu in bid to save Addis

By Julian Ozanne in Nairobi

SENIOR US envoys met the embattled President Mengistu Haile Mariam of Ethiopia at the weekend in an initiative aimed at preventing the country's civil war engulfing the capital Addis Ababa.

Mr Rudy Boschwitz, an envoy of President George Bush, and three other officials had extensive talks with Mr Mengistu and his government on an Ethiopian parliamentary proposal for unlimited, open talks with all rebel groups and a transitional government followed by a ceasefire. The meetings followed a week of heavy fighting between government troops and rebels who have advanced to within 65 miles of the capital.

One US official said the Ethiopian government had embarked on "a major, sincere undertaking. All the elements have come to the real fundamental judgment that profound political concessions must be made, and that a military solution is impossible. There are no limitations. Everything is up for negotiation, even the formation of multi parties."

A US official left Addis Ababa yesterday for Khartoum to meet the two leaders of the main rebel groups, Mr Issayas Aferwerki of the secessionist Eritrean People's Liberation Front and Mr Meless Zenawi of the Ethiopian People's Revolutionary Democratic Front. The official will brief them on the government's position and try to facilitate dialogue.

However, despite the backing of Washington and Moscow for the proposal and the optimism of US officials, doubts remain over whether the rebels, lifted by recent victories, can be made amenable.

EPRDF statements last week criticised the parliament for calling a national mobilisation, and threatened to fight Mr Mengistu to the finish. Even so, the rebels are anxious to avoid the huge civilian casualties and destruction of infrastructure which would accompany a battle for the capital.

"It is in our interest to minimise the bloodshed and come to a peaceful resolution," Mr Asefa Mamo, EPRDF spokesman in London, said yesterday.

Mr Mengistu's apparent determination to remain in power, rather than allowing a transitional government to be formed, continues to obstruct peace.

Rebel groups have built up much hostility to, and suspicion of, Mr Mengistu and the clique which surrounds him.

Furthermore US optimism about the possibility of a breakthrough has not been matched by its deeds. Last Thursday the US State Department ordered the evacuation of all embassy dependents and non-essential personnel and urged private Americans to leave as soon as possible.

A leading Ethiopian political analyst in Nairobi said yesterday that the peace initiative has a very slim chance of success with Mr Mengistu still in power.

"But it is the only chance to save the country disintegrating into a bloodbath. It must be given an opportunity to suceed even at the 59th minute."

ANC defeat for Winnie Mandela

By Patti Waldmeir in Johannesburg

MRS Winnie Mandela, on trial in South Africa for kidnapping and assault, was unexpectedly defeated at the weekend in an election to a senior post in the African National Congress.

The wife of Mr Nelson Mandela, ANC deputy president, lost a secret ballot for the presidency of the ANC Women's League.

This post carries automatic membership of the ANC's policy-making National Executive Committee, under the organisation's proposed new constitution.

Mrs Gertrude Shope, a moderate on the ANC national executive, became Women's League president late on Saturday night when she took 400 votes to the 196 of Mrs Mandela, who represents the organisation's most radical wing.

Despite her defeat, Mrs Mandela seems likely to be elected in July to an expanded, 120-member ANC national executive.

● A mob shot and hacked to death at least six people at a funeral in the township of Soweto, near Johannesburg, yesterday.

Three thousand sympathisers of the mainly Zulu Inkatha Freedom Party swarmed out of a funeral rally at a stadium and attacked residents.

India divided over US trade decision

By K K Sharma in New Delhi

INDIAN business has made a strong protest against the US decision to put India, with China and Thailand, on the Special 301 list, under the US Trade Act.

However, the Indian government is not showing concern over the decision, although punishment and retaliation by the US against India's exports can be taken after six months if Delhi makes no progress in protecting US companies' intellectual property rights.

Dr Subramaniam Swamy, India's commerce minister, yesterday said "we should not over-react" to the US decision. The statement by Ms Carla Hills, US trade representative, accompanying the announcement was "conciliatory and leaves the door open for negotiations".

He felt the decision was made mainly to placate Congress from which the administration was under pressure to act. Dr Swamy's surprisingly mild reaction to a decision that could imperil India's exports to its largest trading partner, at a time when its balance-of-payments position is critical, is in marked contrast with the condemnation of the decision from Indian business and officials.

The subdued comment could also be related to India's hope that the US and other donor countries will give emergency assistance to the country to help tide it over its current payments problems.

An emergency meeting of the donors is to be held during the current World Bank-IMF meetings in Washington.

Under the US decision, India, with China and Thailand, have been put on the priority watch list for six months during which negotiations will be held on protecting US companies' intellectual property rights.

Officials expressed regret that the US decision had been taken while the issue was still with the Uruguay Round trade liberalisation talks of the General Agreement on Tariffs and Trade.

However, Dr Swamy believes negotiations could resolve differences between India and the US.

The objections by the US are thought to be mainly to India's failure to protect the patents of pharmaceuticals companies on products, rather than the processes which are used to make them.

Dr Swamy said that the US "concern is not with the law but on its enforcement."

He said: "We have no bitterness or rancour. I want to tell Indian industry not to panic as the door is open for negotiations. We must find a negotiated settlement."

Dr Swamy pointed out that the US did not take any action against India last year after putting it on the hit list under the Super 301 clause of the Trade Act because of restrictions under its foreign investment and trade policies.

Seoul death leads to fall of minister

By John Ridding in Seoul

PRESIDENT Roh Tae Woo of South Korea has sacked his home minister in an attempt to defuse anger over the death of a student at the hands of riot police.

Mr Kang Kyong Dae, a 20-year old economics student, died on Friday night after being beaten by police during a demonstration against the arrest of a student leader at Seoul's Myungji University.

This was the first death of a student in a clash with riot police since 1987 and will increase social tensions at a time when the annual wage-bargaining and student protests are getting under way.

It prompted demonstrations in Seoul at the weekend. Riot police used tear gas and water cannon to block a protest march towards central Seoul on Saturday afternoon.

A spokesman for the ruling Democratic Liberal Party said that the government "wholeheartedly apologises to the nation". He said that Mr Ahn Eung Mo, home minister, would be superseded by Mr Lee Sang Yeon.

However, opposition groups said that the government's response, and the issue of arrest warrants for the four policemen believed responsible, was not enough.

Kaifu cool to proposed Asian economic group

MALAYSIA has failed to win endorsement from Mr Toshiki Kaifu, the visiting Japanese prime minister, on a controversial proposal to set up a new Asian economic group, Reuter reports from Kuala Lumpur.

Japan would await further developments from Malaysia and other south-east Asian countries on the proposed East Asian Economic Group (EAEG) before making any decision on a role for itself therein, Mr Abdul Majid, a senior Malaysian Foreign Ministry official said on Saturday after Mr Kaifu had met Dr Mahathir Mohamad, Malaysian prime minister

Dr Mahathir has proposed the EAEG, citing the European Community and the US free trade agreements with Canada and (in embryo) Mexico.

The US has opposed the EAEG, saying it could create a trade bloc.

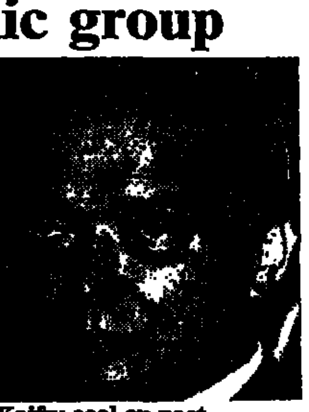
Japan, wary of straining ties with the US and the EC, its main trading partners, has remained cool to the idea, although Malaysian leaders say Tokyo, with its economic might, would be the leader of such a new group.

The ministry official quoted Dr Mahathir as saying developing Asian countries could not raise by themselves their concerns about growing protectionism in the world.

He said the premier was concerned that multilateral trade talks had stalled because of differences between the EC and the US, which left many developing nations in the cold.

"An EAEG forum would certainly deal with the matter," the official quoted Dr Mahathir as saying.

"As a group, these small countries would have a voice."



Kaifu: cool on pact

UK anticipates Kuwait well-capping contract

By Mark Nicholson in Kuwait City

MR John Wakeham, UK energy secretary, said yesterday he had "every reason to believe" that British companies would soon receive substantial contracts to help cap Kuwait's blazing oil wells.

Senior UK oil industrialists who accompanied Mr Wakeham on his three-day visit to the emirate also said they were confident of winning a share of the fire-fighting and capping work, now being undertaken by three US companies and a Canadian group.

The British delegation is among groups from around the world, including China and the Soviet Union, which have responded to the Kuwait government's appeal this month for more help in fighting the fires. However, no further contracts have yet been confirmed.

Mr Wakeham told reporters yesterday he expected contracts towards repairing Kuwait's oil production facilities to amount eventually to "a good many billions of dollars".

He added: "I have every reason to believe the Kuwait Oil Company will be asking a British team to do some of the work."

The British delegation, headed by Mr Basil Butler, president of the Institute of Petroleum and a former chairman of the Kuwait Oil Company, is offering expertise in management and damage assessment, as well as in direct fire-fighting.

British firefighters are expected, if contracted, to concentrate on blazes in Kuwait's northern oilfields, where no well-capping has begun. Many of the delegation stressed UK expertise in addressing the fires by drilling relief wells, rather than by tackling the well-head.

Mr Butler said it was too early to estimate how long it might take to extinguish the fires, but said there was little prospect of this within a year. More than 60 wells have been capped so far of the more than 500 set alight by the Iraqis.

UN accord likely over W Sahara referendum

A SOLUTION to the conflict over the status of the former Spanish colony of Western Sahara, which has pitted Morocco against the Polisario Liberation Front, appears to be in sight, reports Francis Ghiles.

The UN Security Council is expected to agree today to proposals for a referendum, drawn up by Mr Javier Pérez de Cuéllar, secretary-general.

Both parties to the conflict – especially, it seems, Polisario and its main ally Algeria – have made recent concessions.

Under the plan, Morocco would cut its troops by two thirds, to 65,000, within 11 weeks of a ceasefire. All remaining Moroccan troops would be confined to defensive positions along the protective wall Morocco has built to defend itself from Polisario guerrilla attacks. Polisario's estimated 7,000 fighters would also be confined to camps around the main refugee centre south of Tindouf, in south western Algeria.

The existing Moroccan administration will however remain, contrary to Polisario's initial wishes. Considerations of cost strongly militated against the UN a wholesale takeover of taking over the administration of the territory by the UN before during the run-up to a referendum.

An election commission would decide who is eligible to vote in the referendum. To those names included in the census conducted by the former colonial power just before it relinquished control of the territory and which estimated the Saharawi population to be just short of 74,000 would be added people from the Sidi Ifni region which Spain returned to Morocco in 1969 and those born in Morocco, Algeria and Mauritania who could bring proof of the Saharan origin. That, ironically enough includes the Polisario leader, Mohammed Abdelaziz, who was born in Marrakesh and whose father still lives there.

King Hassan has accepted the idea of a referendum but made it clear that the result could only "ratify" what most Moroccans strongly feel is theirs historically. His prestige would suffer a considerable blow were the outcome of the vote to be a call for independence. His opposition, frustrated by having no share in running Morocco, has systematically been more "royaliste que le roi."

Algerian President Chadli Bendjedid for his part has gone to great lengths to rebuild links with Algeria's his eastern neighbour, notably by re-establishing diplomatic ties, broken off in 1976, three years ago. But the outcome of the first-ever free elections in North Africa, due next July in Algeria, could bring to power people far less willing to compromise.

Furthermore, King Hassan and his Algerian counterpart know that the pipeline due to carry natural gas to Spain across northern Morocco and the Straits of Gibraltar will only get the final go-ahead if the two big north African countries settle the status of the Western Sahara once and for all.

Finally, were the long festering dispute to be settled, the Maghreb countries would be in a better bargaining position with the EC with whom they share so many links. Instead of engaging in quarrels which leave most Europeans indifferent and buying weapons with money better used in civilian projects, they would for once have shown they were capable of doing something constructive.

With turmoil likely to continue in the Middle East, that would at least leave the Maghreb al Aqsa (and of the setting sun) as one part of the Arab world with no major disputes.

David Marsh hears a candid commentary from a senior economics official who retires tomorrow

How Bonn got it wrong on the east German economy

Otto Schlecht: frank admission of policy failures

THE German government deceived itself in failing last year to foresee the depth of the economic crisis in east Germany, says Mr Otto Schlecht, state secretary at the economic ministry.

In a frank admission from a Bonn insider of policy shortcomings over German unity, Mr Schlecht said: "We deceived ourselves about the size and depth of the restructuring crisis."

In particular, the government's much-broadcast comparison between the hoped-for recovery in east Germany and the positive aftermath of the west German currency reform in 1948 was "wrong from top to bottom," Mr Schlecht conceded.

Mr Schlecht, Bonn's most senior civil servant in the economic policy field, is retiring tomorrow after 18 years in the job. He revealed that he was initially highly sceptical about Mr Jürgen Möllemann, the economics minister who took over in January, but now backs the minister's more active line on aiding the east German economy.

During the run-up to the united German elections last December, Mr Schlecht said the government seized on optimistic forecasts that the east German economy would recover relatively quickly. "We gave prominence to the positive elements, and forced the negative ones into the background. This was because we wanted people to take heart (over economic prospects) – and because there was an election campaign."

"At the beginning, we somewhat underestimated the effect of the shock of liberalising overnight a command economy which had been barred off from the world for 40 years," Mr Schlecht said.

On the outlook east of the Elbe, he said that, by the end of this year "we will have gone through the worst". Next year would see recovery, but from a far lower basis of economic activity than the government had previously predicted.

Unemployment in east Germany would continue to rise, but not above 2m, thanks to the policy of putting large numbers of effectively-unemployed people on to short-time working, Mr Schlecht said.

Until a few months ago, the government, together with the country's leading independent economic forecasters, were unanimous that an upturn in east Germany would begin this summer.

Mr Schlecht praised the hard work and energy of Mr Möllemann who replaced his luckless predecessor Mr Helmut Haussmann. Mr Möllemann has played a leading role in bringing about increased public sector funding and administrative support for the east, as well as a shift to more pragmatic policies over property rights and privatisation.

Mr Schlecht, 65, will now head the Ludwig Erhard Foundation, the body promoting the ideas of the German-style "social market economy" at home and abroad. He may also act as an economic adviser in the Soviet Union and for other east European governments such as Hungary and Romania.

The west German current account balance will show a small deficit both this year and next and growth in the west will slip to 2.5 per cent this year, according to the spring report of Germany's five leading economic institutes published today, writes David Goodhart in Bonn.

The institutes expect average inflation in west Germany this year of 3.5 per cent (touching 4 per cent at the end of the year) and 11 per cent in east Germany (touching 15 per cent at the year's end). GNP in east Germany is expected to fall by 17.5 per cent.

The report expresses cautious hopes of a construction-led turnaround in east Germany in 1992. But by the end of this year 3.5m people will be without work or on short-time work in the east. The institutes are critical of the large wage increases in east Germany and propose that the Treuhand agency, which owns most east German companies, should become involved in wage bargaining.

French visit to NZ an attempt to rebuild ties

By Terry Hall in Wellington

FRENCH prime minister Michel Rocard today begins a visit to New Zealand seen as important in improving a relationship which for six years has been deeply troubled.

Difficulties have included the Rainbow Warrior affair, French testing of nuclear weapons in the Pacific, and trade difficulties with the EC.

In turn, Mr Rocard's visit, the first by a French prime minister, is important to the National party government of Mr Jim Bolger, which wants to emphasise its desire to strengthen New Zealand's place in Europe just as France sees a similar role for itself in the Pacific.

China puts up prices

China yesterday announced huge price increases on staple foods, saying they were necessary because of the crushing burden of government subsidies which have quadrupled in 10 years, Reuter reports from Peking.

Residents were told about the price hikes at their work places last week, triggering long queues at shops where April ration cards could still be used to buy goods at the old prices.

The price of flour rises by 54 per cent and vegetable oil by 108 per cent, but will still be priced below the cost of production.

To soften the latest inflationary blow every worker will get a subsidy of six yuan ($1.14) a month.

US orders fall

US machine tool orders, a key indicator of the nation's economic health, fell sharply in March, down 22.7 per cent from a year earlier and 16.2 per cent lower than February, the Association for Manufacturing Technology said.

Machine tools, which cut or shape metal, are used in the manufacture of a goods ranging from weapons and aircraft to consumer items such as refrigerators and cars.

Although the market for machine tools is relatively small, its level of activity can provide clues to the health of manufacturing and the economy generally.

Iceland's new PM

A coalition government is to be formed in Iceland between the right-wing Independence party and the Social Democrats. The new prime minister is Mr David Oddsson, 43, leader of the Independence party for only a few weeks, the mayor of Reykjavik and a well-known radio comedian, writes Robert Taylor in Stockholm.

The coalition parties between them have 36 seats in the 63 strong Parliament.

Ministers seek Nato talks on defence

By David Buchan in Mondorf-les-Bains, Luxembourg

THE future of European defence should be discussed in Nato with the Americans, EC foreign ministers agreed yesterday.

At an informal meeting, the more Atlanticist states – Britain, the Netherlands and Portugal – appeared to stem the tide in the political union negotiations that had been moving in favour of presenting Nato and the US with a fait accompli on European defence. This would be based on a western European union ever more closely tied to the Community.

Mr Jacques Poos, foreign minister of Luxembourg, which holds the EC presidency, revealed that his US counterpart, Mr James Baker, had last week delivered another stiff warning to EC states on defence.

Echoing his diplomatic demarche in February, the US secretary of state cautioned the Europeans that in building up WEU, they should not tamper with the Nato military structure or take action outside the Nato area without first consulting the alliance.

European states that did not belong to the EC, such as Norway and Turkey, should also be let in to WEU, he had said.

American concerns could be "appeased", said the Luxembourg minister, and the forum for this should be Nato, which was lagging well behind the EC in its strategic review.

Mr Jacques Delors, the Commission president, suggested that if delicate defence issues were also discussed in Nato as well as the EC, fewer British and Dutch hackles would be raised. It would look less as though the Americans were being chased out of Europe, the Commission president said, calling for Nato to get a move on with its strategic review scheduled to end with an autumn alliance summit.

A flick of a coin yesterday denied Mr Brian Crowe, Britain's ambassador to the Conference on Security and Co-operation in Europe, the top job in EC diplomacy, writes David Buchan. EC foreign ministers split six-six in a secret vote on Saturday on whether Mr Crowe or Mr Pierre Champenois, a Belgian diplomat, should succeed Mr Giovanni Jannuzzi of Italy as secretary general of European Political Co-operation, a small cell of Brussels-based diplomats through which all EC foreign policy co-ordination passes. The UK and Belgian foreign ministers, Mr Douglas Hurd and Mr Mark Eyskens, first thought of dividing the job's tenure. But realising the job could be dramatically changed and upgraded in a political union treaty, they decided to spin for it. Mr Jacques Poos, foreign minister of Luxembourg spun the coin, and the Belgian won.

UN plans crackdown on drug laundering

New narcotics chief sees attack on crime profits as crucial, says **Ian Hamilton Fazey**

NEW routes and markets for drug traffickers have been created with the end of the Cold War and the opening of east European borders. The Soviet Union has reported large increases in addicts during the last three years and the United Nations says that some of the drugs now being smuggled through the Balkans are "sticking" en route.

The spread of the problem has added to the urgency with which the UN has started to merge its three drugs agencies to cut out duplication. The aim is to escalate and globalise its fight against the illicit drugs industry, which Mr Giorgio Giacomelli, new head of the UN's programme, says is worth up to $500bn a year.

Mr Giacomelli said the UN would take the lead to co-ordinate a more rigorous world-wide fight against drug abuse. He sees a more vigorous attack on money laundering as crucial, to stop drugs money being channelled into legitimate businesses.

Mr Giacomelli, a senior Italian diplomat who took up his post last month, will report progress to the UN Commission of Narcotic Drugs, which starts its annual 10-day meeting in Vienna today.

The three agencies – the Division of Narcotic Drugs, the UN Fund for Drug Abuse Control, and the International Narcotics Control Board – are being merged into a single organisation called the UN International Drug Control Programme.

The agencies employ about 150 people in Vienna and 50 in 15 offices around the world. They implement and monitor treaties on legal drug production and run intervention programmes to try to change the economic and cultural bases of Third World countries producing opium and coca leaves.

Recent years have seen increasing emphasis on tackling the problem in the market-place by reducing demand among drug abusers through educational, social, welfare and medical initiatives.

However, Mr Giacomelli acknowledged that the UN agencies have been "parallel institutions", not always in harmony, despite good work done.

Mr Giacomelli said the UN's estimate of the size of the illegal drugs industry was between $300bn and $500bn. People tended to fix on the higher figure, which he thought was reasonable.

"It is second only to the arms trade and is bigger than the oil trade. With such amounts there is no limit to what you can achieve. You can buy or kill judges and you can set a very sophisticated underground pharmaceuticals industry," he added.

"Against it, we have to operate within the framework of law or agreed strategies and tactics, while the crime world has no such constraints. They have no problems of sovereignty or borders."

Mr Giacomelli said organised crime had "globalised as much as any other international industry." This was why an attack on money laundering was at the heart of the struggle.

"This is where the international community is worried. It is a very significant amount of money and can influence the state of world finance. We have to go to the point where there is a linkage between the criminal origin of funds and the legitimate enterprise and then stop the criminal activity."

The three UN agencies have a combined annual budget of $80m. Mr Giacomelli believes that more will be available once he has proved to UN member states that the new single organisation is giving better value for money.

Italy is the biggest contributor, because its agency for co-operation and development – which Mr Giacomelli set up in 1971 – recognised the importance of fighting drug problems early on. Britain, the US, Germany and Sweden are also among the UN's leading supporters.

Greens inch toward realism

By David Goodhart in Bonn

THE German Greens took steps towards creating a more professional party structure at the weekend but did not, as had been expected, support a full-scale takeover by the pragmatic "realo" wing.

In one of the biggest shocks of last December's all-German election the Greens failed to cross the 5 per cent hurdle into the Bundestag but have subsequently recovered ground in Länder elections.

The weekend conference did abolish the rotation principle, under which representatives were usually allowed to serve only one term in office, and which had helped to mark the Greens as a counter-culture movement rather than a real party.

Also, a group of far-left ecologists under Ms Jutta Ditfurth decided to leave the Greens.

However the Greens stopped short of swallowing all the "realo" medicine and elected two leaders from the left of the party.

A delegate aims a water pistol at another party member at the German Green conference

US lobs a cut-price spanner into Europe's cosy soda ash market

Clive Cookson on the looming upheaval in production of a major industrial chemical

THE EUROPEAN MARKET

THE £700m a year European market in soda ash – one of the world's main bulk chemicals – is entering a period of upheaval, after 40 years during which the pattern of trade hardly changed.

The soda ash story illustrates both the continuity of the European chemicals business and the forces of change now working on it. In the case of soda ash, these include:

- Low-cost US producers whose prices can undercut the European manufacturers at current exchange rates;
- The EC, which dealt the European companies a double blow late last year, by fining them Ecu48m (£33.4m) for allegedly running a soda ash cartel and by lifting an anti-dumping duty that had kept US producers out of Europe;
- The opening up of eastern Europe's huge soda ash market to western manufacturers.

Solvay of Belgium has dominated the soda ash business since the 1860s when Ernest Solvay founded the company to synthesise the material – used in glass making and other industries – from cheap raw materials (salt and limestone). During the late 19th century Solvay built a network of soda ash plants across the continent from Russia to Spain, while licensing Brunner, Mond – a predecessor of ICI – to use his process in the UK.

Today Solvay, Belgium's second largest company, makes about 4m tonnes a year of soda ash in west European plants. Soda ash – currently selling for about $200 per tonne – still represents 11 per cent of Solvay's BFr255bn (£4.16bn) a year turnover. The company has long used soda ash as a "cash cow" to help finance expansion into other fields.

ICI makes 1m tonnes a year of soda ash in the UK. Smaller European producers, including Rhône-Poulenc of France, Akzo of the Netherlands and BASF and Henkel of Germany, produce 1.5m tonnes a year.

The sales pattern established in the 19th century persists today. ICI has more than 90 per cent of the UK and Irish soda ash markets and sells very little on the continent. Solvay, conversely, has 70 per cent of the continental market.

Solvay and ICI abandoned their formal market-sharing agreement in the 1960s and insist that there is now no collusion between them. The EC competition directorate disagrees and in December fined Solvay Ecu30m and ICI Ecu17m for operating a cartel and offering illegal price rebates to lock in large customers. In addition BASF was fined Ecu1m.

The companies are appealing against the fines. The rebates are normal commercial practice, they say, and the trading patterns result from the nature of soda ash, a bulky low-value chemical which is expensive to transport and requires special supply facilities. Customers do not maintain large stocks of soda ash – a glass manufacturer keeps less than a week's worth on the premises – and they rely on the suppliers to keep the material flowing steadily into the works.

For example Pilkington, the leading UK glass maker, has a very close working relationship with ICI, which has supplied virtually all its soda ash for many decades. ICI's soda ash factories in Cheshire are conveniently close to Pilkington's glass works in St Helens on Merseyside.

Mr Olivier Montfort, manager of Solvay's soda ash business, says his company recently offered to supply Pilkington in St Helens with Solvay soda ash at the same price as it sells the material to Flachglas, Pilkington's German subsidiary, with transport costs added. "They could not accept it," he says.

The great misfortune for the synthetic soda ash producers was the discovery in the 1950s of vast deposits of a mineral called trona in Wyoming, USA. Trona is a naturally occurring form of soda ash (sodium carbonate) and represents a cheaper source of the material than the Solvay process. In 1986 the last Solvay plant in the US closed down after making heavy losses for several years, leaving the US field clear to a group of six companies selling natural soda ash.

The group operates an export cartel, American National Soda Ash Corporation (Ansac), which has had great success selling US ash in Asia and South America. Small quantities have come into Europe, particularly when the dollar was very weak in the mid 1980s, but the EC anti-dumping duty of $65 per tonne effectively shut out US imports.

After the EC lifted the duty last October, it told Ansac that it could not operate as a cartel in Europe. That decision has somewhat delayed US shipments to Europe, while the six individual companies make their own export arrangements, but sources in the industry say that significant amounts of American ash are beginning to reach UK and west European ports.

The US producers say they are aiming to win at least 5 per cent of the European market. But they are acting cautiously, in response to an EC warning that it would monitor their activities closely and re-impose the anti-dumping levy immediately if there was any evidence of unfair activities. Richard Bell, ICI's commercial manager for soda ash, says some US material is reaching Europe at prices very close to dumping levels.

Mr Montfort says Solvay accepts that the Americans will win a slice of the west European market. Some glassmakers near good harbours – for example in the Rotterdam/Antwerp region – may take as much as 10 per cent of their soda ash from the US, he says, although they will be reluctant to go beyond that level and jeopardise the long-term security of their relationship with Solvay.

Solvay plans to make up for the loss of market share in western Europe by winning business in the east. The company is close to regaining control of the Bernburg plant in eastern Germany, which was appropriated from Solvay in 1940. As soon as negotiations with the Treuhand privatisation agency are complete, Solvay will invest DM200m in Bernburg, which can produce 500,000 tonnes per year.

Meanwhile ICI says it has been approached by a number of east European countries. "We're looking at a variety of options," said Mr Bob Collicut, ICI soda ash manager. "I think that soda ash is an industry that eastern Europe might want to concentrate on, since it is not environmentally one of the worst industrial activities and it is used in so many other basic industries – particularly glass, detergents and chemicals."

هكذا من الأصل

INTERNATIONAL NEWS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

UNITED STATES

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1984	95.3	98.3	7.4	96.0	98.3
1985	100.0	100.0	7.1	100.0	102.7
1986	105.7	100.9	6.9	97.8	107.9
1987	108.3	105.9	6.1	105.0	109.8
1988	112.2	111.6	5.4	106.2	114.3
1989	114.7	114.5	5.2	99.4	113.3
1990	114.2	115.7	5.4	84.3	108.8
1st qtr.1990	1.7	0.6	5.2	93.0	114.5
2nd qtr.1990	-0.2	0.9	5.3	88.0	114.5
3rd qtr.1990	-1.2	2.2	5.6	83.5	111.8
4th qtr.1990	-2.1	0.3	5.8	72.7	108.8
April 1990	-0.3	0.2	5.3	89.6	114.5
May	-0.3	1.0	5.3	87.6	114.5
June	0.1	1.6	5.2	86.8	114.5
July	0.0	2.4	5.4	87.0	114.0
August	-1.6	2.1	5.6	83.5	113.1
September	-1.6	2.2	5.6	79.8	111.8
October	-1.2	2.0	5.6	76.3	110.3
November	-1.5	0.2	5.8	71.0	109.3
December	-3.5	-1.3	6.0	70.9	108.8
January 1991	-6.0	-0.8	6.1	65.8	109.7
February	-4.7	-2.6	6.4	64.0	111.2
March		-3.3	6.8		

JAPAN

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1984	96.7	96.4	2.7	100.5	93.9
1985	100.0	100.0	2.6	100.0	96.4
1986	106.4	99.7	2.8	94.3	105.3
1987	113.5	103.1	2.8	106.3	115.2
1988	122.7	112.9	2.5	135.9	122.5
1989	132.7	119.9	2.3	147.0	125.7
1990	141.9	125.3	2.1	149.7	123.0
1st qtr.1990	3.5	1.9	2.1	149.7	124.8
2nd qtr.1990	14.5	3.5	2.1	149.0	124.8
3rd qtr.1990	7.8	5.9	2.1	146.4	124.3
4th qtr.1990	2.8	7.0	2.1	153.2	123.0
April 1990	20.4	3.1	2.1	145.1	123.8
May	10.7	4.3	2.1	153.9	123.9
June	12.9	3.0	2.2	148.1	124.8
July	8.8	7.0	2.1	152.5	125.1
August	6.6	5.6	2.1	145.7	124.8
September	7.5	5.3	2.2	141.3	124.3
October	2.5	8.2	2.2	157.8	123.7
November	3.0	6.6	2.1	148.2	123.2
December	3.0	8.0	2.1	153.7	123.0
January 1991	4.3	7.5	2.0	154.6	122.6
February		6.6	2.0		
March					

GERMANY

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1984	99.2	96.4	7.1	83.4	99.9
1985	100.0	100.0	7.2	100.0	103.7
1986	103.6	102.4	6.4	136.4	103.1
1987	107.4	102.7	6.2	149.4	103.8
1988	110.5	106.4	6.2	164.7	109.7
1989	113.6	111.6	5.6	218.9	112.0
1990	122.8	117.4	5.1	261.4	113.6
1st qtr.1990	5.0	5.0	5.3	258.4	112.6
2nd qtr.1990	6.0	4.6	5.2	263.7	113.7
3rd qtr.1990	13.3	5.7	5.1	263.8	114.8
4th qtr.1990	7.8	5.4	4.7	256.7	113.6
April 1990	5.2	0.9	5.2	260.3	112.9
May	7.4	8.7	5.2	264.5	113.3
June	5.3	4.4	5.2	266.2	113.7
July	14.9	5.0	5.1	268.3	114.6
August	12.1	5.8	5.1	265.8	114.9
September	12.8	6.5	5.0	257.5	114.8
October	8.8	6.6	4.9	254.8	114.3
November	9.7	5.6	4.7	258.1	114.1
December	5.4	4.1	4.6	263.1	113.6
January 1991	12.8	6.2	4.5	268.9	112.4
February	9.4	3.8	4.5	267.2	111.1
March				273.0	

FRANCE

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1984	99.3	99.3	9.7	99.3	97.4
1985	100.0	100.0	10.2	100.0	101.1
1986	102.4	101.2	10.4	107.4	107.2
1987	104.5	103.1	10.5	118.0	107.3
1988	107.9	107.3	10.0	134.6	112.0
1989	109.6	111.2	9.4	159.1	111.4
1990	110.1	112.4	9.0	182.6	105.5
1st qtr.1990	0.5	1.5	9.0	174.2	111.1
2nd qtr.1990	1.6	1.0	9.0	171.2	110.4
3rd qtr.1990	-0.5	2.2	9.0	161.4	108.9
4th qtr.1990	0.6	-0.4	9.0	143.2	105.5
April 1990	1.8	0.1	9.0	180.0	110.7
May	1.4	1.8	8.9	173.5	110.5
June	1.6	1.0	9.0	160.4	110.4
July	0.7	2.3	9.0	161.0	109.8
August	-1.2	2.3	8.9	166.5	108.4
September	-1.1	2.1	9.0	156.7	106.9
October	4.2	1.3	9.0	150.0	105.8
November	-2.8	-0.8	9.0	141.4	105.5
December	0.6	-1.6	9.0	138.1	105.5
January 1991	-0.4	0.8	9.1	134.4	105.0
February	-1.4	1.7	9.2	127.5	104.5
March					

ITALY

	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator
1984	95.4	98.5	9.3	101.1
1985	100.0	100.0	9.6	103.6
1986	107.6	103.2	10.4	110.3
1987	113.4	106.8	10.9	112.5
1988	109.7	114.2	10.9	117.4
1989	117.4	118.7	10.9	115.6
1990		117.9	9.8	112.8
1st qtr.1990	0.3	2.0	10.1	115.4
2nd qtr.1990	-4.5	0.9	9.7	115.6
3rd qtr.1990		-1.2	9.8	114.8
4th qtr.1990		-4.2	9.8	112.8
April 1990	-7.0	1.4	n.a.	115.7
May	-4.2	2.1	n.a.	115.6
June	-2.3	-0.8	n.a.	115.6
July	-3.6	-1.3	n.a.	115.1
August	-4.3	-1.1	n.a.	114.4
September		-1.2	n.a.	114.6
October		-3.0	n.a.	114.1
November		-4.1	n.a.	113.5
December		-5.5	n.a.	112.8
January 1991		-0.1	n.a.	112.2
February			n.a.	111.9
March			n.a.	

UNITED KINGDOM

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1984	95.6	94.8	11.7	93.7	100.7
1985	100.0	100.0	11.2	100.0	102.4
1986	105.2	102.4	11.2	118.1	105.3
1987	110.7	105.7	10.3	141.2	109.6
1988	117.7	108.6	8.5	144.3	108.5
1989	119.9	110.0	7.1	124.2	108.1
1990	120.4	109.2	6.8	97.8	102.3
1st qtr.1990	1.1	0.0	6.7	112.5	105.4
2nd qtr.1990	1.2	2.5	6.7	108.8	105.3
3rd qtr.1990	0.6	-2.0	6.9	93.8	104.0
4th qtr.1990	-1.2	-3.2	7.3	76.3	102.3
1990 April	2.2	0.3	6.7	112.4	105.1
May	0.7	2.8	6.7	109.8	105.2
June	0.8	4.5	6.7	104.2	105.3
July	2.3	-0.8	6.8	97.1	105.2
August	-0.4	-2.7	6.9	94.5	104.5
September	-0.1	-2.5	6.9	89.7	104.0
October	-0.9	-2.2	7.0	80.8	103.5
November	-1.4	-3.3	7.3	75.0	102.9
December	-1.2	-4.2	7.6	72.9	102.3
1991 January	-1.5	-4.2	7.8	81.5	101.7
February	-2.6	-2.5	8.1	83.3	101.5
March	2.0		8.6	81.3	

All series seasonally adjusted. Statistics for Germany apply only to western Germany. **Retail sales volume:** data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). **Industrial production:** data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). **Unemployment rate:** OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. **Vacancy rate indicator:** relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US-help wanted advertising, Japan-new vacancies, Germany and France-all jobs vacant, Italy-no data available, UK-unfilled vacancies. **Composite leading indicator:** OECD data. Each is a combination of series, cyclical fluctuations in which generally precede cyclical fluctuations in general economic activity. Data supplied by Datastream and WEFA.

A Germany divided poses new challenges

THE FALL-OUT from the monetary and political unification of east and west Germany last year has left German policy-makers facing two very different economic challenges.

Reliable statistics for industrial production and employment in the eastern *länder* are still hard to come by, but it is quite clear that the east German economy has collapsed over the past nine months under the dual burden of competition from the west and rapidly rising east German wages. Meanwhile, consumer demand and industrial output in west Germany have continued to grow at an apparently unsustainable pace, as the economic indicators show in the chart.

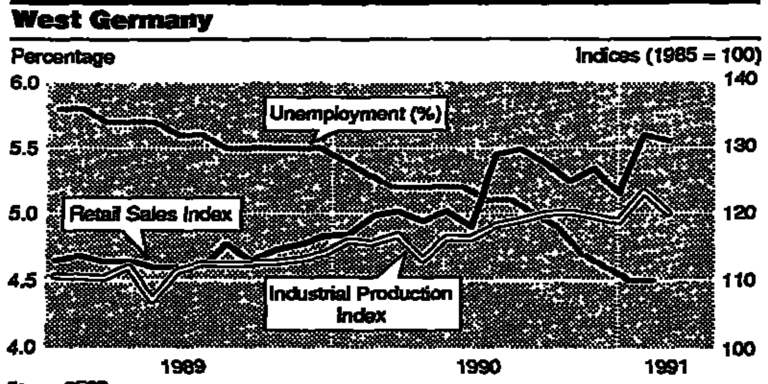
The growth of output of west German companies has accelerated since the collapse of the Berlin wall in October 1989, when east German consumers were first able freely to travel to the west. Industrial production in 1990 was 5.2 per cent higher than in 1989.

Companies have also switched resources away from producing exports in order to supply the expanding home market. The catalyst for this change was the deterioration in Germany's export competitiveness which has occurred over the past year. Rising German interest rates have attracted foreign capital into Germany, causing the D-Mark to appreciate and pushing the German current account into deficit in January of this year.

Retail sales were buoyant in the western *länder* in late 1989 and early 1990, but it was monetary unification last July, and the consequent rise in the purchasing power of east German savings, which provided the biggest fillip for west German retailers. Retail sales in the third quarter of last year were 13.3 per cent higher than in the equivalent period in 1989, compared to 6 per cent higher sales in the second quarter of 1990.

The demand for labour in west Germany has also increased sharply as companies have expanded production to meet rising demand for their output. Vacancies in 1990 were almost double their level of 1986, while unemployment

West Germany



Source: OECD

fell to 4.5 per cent of the workforce in February 1991, from 7.2 per cent in 1985.

This increased tightness in the labour market has been manifested in a rise in the level of wage claims. This combination of strong consumer demand and increased wage pressure explains why the Bundesbank remains nervous about inflation and may want to increase interest rates in Germany again, despite falling output and rising unemployment in the east.

These and many other trends in the world economy are visible in the fourth of our new series of statistical tables for the six largest industrial countries. It follows tables covering National Accounts (April 8 1991), Balance of Payments (April 15 1991) and Money and Finance (April 22 1991).

Today's table consists of five series which together provide a detailed picture of both historical trends and future prospects for industrial output, retail sales and employment.

The industrial production and retail sales series are shown annually in index form (1985 = 100), and quarterly and monthly as growth rates on the equivalent period in the previous year.

Because all countries calculate unemployment rates in different ways, the table contains standardised unemployment rates for each country, adjusted by the OECD from national sources to approximate to the International Labour Organisation (ILO) definition of unemployment.

This definition includes only those persons of working age who are without work, available for work and actively seeking work. This unemployment definition may not adequately capture the true rate of unemployment. Published figures for unemployment in east Germany, for example, understate the true level of unemployment considerably, since many "employed" workers are merely being paid to stay at home until they can legally be made redundant later this year.

Changes in the level of job vacancies in an economy often provide an advanced warning of future changes in unemployment or inflation, yet few countries attempt systematically to record total available vacancies.

In the UK, the available measure of vacancies — unfilled vacancies at job-centres — is estimated to represent about one third of total vacancies in the economy. No vacancy data are available at all for Italy, while in the US a help-wanted index, based on jobs advertised in main metropolitan newspapers, is used as a proxy for actual vacancies.

The table contains a vacancy rate indicator which the FT has constructed for each country except Italy. The available raw vacancy data for each country, or proxy for the US, have been divided by total civilian employment, to adjust for changes in the size of the employed work-force, and converted into an index with 1985 = 100.

This vacancy rate indicator is informative, but must be used with care. Only general trends in the index can be compared across countries, not levels or even percentage changes. Even within countries, percentage changes in the index over time must be interpreted with caution.

The composite leading indicators are weighted averages of a number of forward-looking economic indicators for each country, which are compiled by the OECD. Cyclical movements in the monthly index should precede cyclical fluctuations in the index of industrial production by about six to nine months.

The indicators included in the index vary across countries, but will often include share price movements, housing starts or results from surveys of business confidence.

Edward Balls and Jill Leyland

UK NEWS

Ministers face questions on NHS funds

By Alan Pike, Social Affairs Correspondent

THE UPROAR over National Health Service funding provoked by job cuts at two trust hospitals is set to continue in the run-up to Thursday's local-government elections.

Opposition MPs plan to press ministers again today after last week's announcement of about 600 job losses at Guy's Hospital, London, and a probable 300 at the Bradford Hospitals Trust.

The financially provoked cuts, announced less than a month after the introduction of the government's NHS reforms, have led to renewed calls for publication of the business plans on which ministers granted self-governing trust status to 57 hospitals and other services. Mr Robin Cook, Labour health spokesman, has written to Mr William Waldegrave, health secretary, asking whether the proposed job losses at Guy's were in its plan.

Mr Waldegrave, in a BBC radio interview yesterday, said it would have been wrong to expect hospital managers to predict last year – when the business plans were prepared – exactly what their income would be for this year.

He agreed that a study by Coopers & Lybrand Deloitte, chartered accountants and management consultants, had shown that only about 12 of the trust candidates were without any financial difficulties.

Mr Waldegrave said, however, that it had been his job to judge whether the solution was going to come "from the very management structure which had created those problems" or from setting up trusts.

Under the health reforms, trust hospitals such as Guy's manage their own day-to-day affairs. All hospitals, whether trusts or directly managed, now receive their finance from contracts negotiated with health authorities and general practitioners. That more competitive funding system means that further cuts and service reductions like those announced last week are likely – particularly in London, where the hospital sector faces substantial rationalisation.

The Guy's and Bradford job cuts, coming so soon after the start of the reforms and just before the local government elections, have embarrassed the government.

Mr Peter Griffiths, chief executive of Guy's hospital, stands by his decision to tell his staff last week that jobs needed to be shed.

He said: "Too often, problems in the NHS have been caused by money running out towards the end of the financial year and forcing hospitals into sudden, unplanned decisions. I thought it was right to make the position clear at the start of the financial year so that we would have as much time as possible to tackle it."

Battle resumes: William Waldegrave (left) faces fresh attacks from Labour's Robin Cook

On Saturday Mr John Major, the prime minister, and other ministers met medical and health specialists to discuss targets for improving the nation's health. The meeting kept to its planned agenda, although Mr Major emphasised to his audience that the government had no intention of reducing the overall resources devoted to the NHS. He said the objective was to get more health care for every pound spent.

The plans for health targets discussed on Saturday will be published by the Department of Health next month. Although the idea is welcomed by health specialists, it is likely to generate more controversy. Critics say that the government's economic policies have added to the health problems of poorer people.

Ribble Valley has rattled Tories in the north-west

Ian Hamilton Fazey says the poll tax is the main issue in this closely fought region

IN THE north-west, the by-election defeat for the Conservatives in the formerly safe parliamentary seat of Ribble Valley in Lancashire has added spice to what was already destined to be a vigorous three-party tussle.

The local authorities are likely to see shifts in power because a third of the seats are up for re-election and all the seats are to be contested in 11 districts that have had boundary changes. Everyone on the register has a vote – for metropolitan borough councils in Greater Manchester and Merseyside and for district councils in Cheshire, Cumbria and Lancashire.

Crucially, both main parties agree that Labour needs 21 parliamentary gains from the Conservatives in the north-west at a general election to install Mr Neil Kinnock, its leader, in Downing Street.

Both main parties are massing their resources for the fight.

Labour has 14 full-time officials and organisers in the region, co-ordinated from a new headquarters in Warrington, Cheshire, at the hub of the region's motorway network.

In 1987, the last time most of this year's contested council seats were fought, Labour did much worse than expected, failing to capture control of several councils.

Labour then had fewer than half the full-time workers it has now, and most were diverted by the party's internal war against the Militant Tendency in Liverpool.

The Conservatives' regional headquarters is in Bury, near Manchester, at the hub of a clutch of parliamentary marginals, where three Central Office organisers help to co-ordinate 30 full-time constituency agents.

At election times, Labour gets additional help from full-time trade union officials. Therefore from an organisational point of view, the two main parties are probably more evenly balanced in the north-west than ever before, and Labour is no longer in disarray.

The battleground itself is one of the UK's key economic and political regions. With about 7m people, it is a third larger than Scotland and accounts for about a tenth of UK gross domestic product. About 2.5m and 1.4m people live in the conurbations of Greater Manchester and Merseyside respectively.

There are 79 parliamentary constituencies, 38 held by Labour, 37 by the Conservatives and four by the Liberal Democrats. Even some Labour workers admit privately that the task of winning 21 Tory seats may be too much, especially because the Conservatives hope to gain Ribble Valley and Southport on Merseyside from the Liberal Democrats.

Yet the loss of the formerly safe Ribble Valley in a by-election last month on the single issue of the poll tax has rattled the Conservatives. At least 13 of their seats are marginal. Senior figures with seats at risk include Mrs Lynda Chalker, the overseas development minister, at Wallasey, Merseyside, and Mr David Trippier, the environment minister, at Rossendale and Darwen in Lancashire.

Of the 1,170 seats being contested, Labour is defending 471, the Conservatives 413 and the Liberal Democrats 116, with 75 independents and 11 old-style Liberals in Pendle.

Generally, towns and cities already in Labour hands are expected to stay so. Conservative apprehension will centre on the hung councils of Wirral and Sefton – both on Merseyside – Chester, Cheshire's Vale Royal, Blackpool and Lancaster, where the Liberal Democrats are not strong, giving Labour a good chance of taking control.

Conservatives will also be concerned with results in wards in Conservative-held parliamentary marginals where Labour came a strong second in 1987 – Ellesmere Port and Neston, Barrow-in-Furness, Bolton North-East, Bury North, Bury South, Hyndburn, Lancashire West, Pendle, Rossendale and Darwen and Wallasey.

The parties will also scan the results for an indication of whether the next general election will be a three-party one. In Bolton West, Stockport, and Pendle a strong showing by the Liberal-SDP Alliance ensured Conservative victories over Labour in 1987. Labour stands to gain those seats if it can pick up a relatively small number of votes from former Conservative and Liberal Democrat voters.

What happens in Lancashire may be the most telling indicator of the electorate's mood. Because six district councils have to be elected in their entirety, more than 421 seats of the north west's 1,170 will be contested in Lancashire alone.

Many are in places such as Hyndburn and Rossendale, where working-class owner-occupation is high – but the houses were formerly low-rated. Thousands who voted Conservative in such marginal constituencies in 1987 have been poll tax losers.

All parties say that their early canvass returns show the poll tax to be the dominant, possibly the only issue.

The Conservatives say everything will depend on how well people understand the mechanisms by which this year's poll tax bills are being reduced for all and how the poor will receive further reductions.

Party workers will have to wait for May 2 to discover how the voters of the north west have judged the argument.

Polls mixed ahead of local elections

By Ralph Atkins

CONFLICTING opinion polls suggest that neither the Labour party nor the Conservative party has a clear lead ahead of Thursday's local elections, but the Tories have received some cheer about the effect of the new council tax.

Mr Michael Heseltine, environment secretary, speaking on LBC Radio, emphasised the prime minister's strengths on domestic and international stages. He said: "This has brought us up to a position where we are in striking distance of a fourth election victory. We are not quite there yet but in striking distance."

As campaigning intensifies ahead of Thursday's elections, opinion polls gave widely differing impressions of how the parties are faring.

Most worryingly for Labour, an Independent On Sunday poll by Numbers Market Research gave the Tories a 10-percentage-point lead. Labour officials dismissed the results as "rogue".

The Sunday Telegraph gave Labour a 3-percentage-point lead over the Tories and a Sunday Times Mori poll put the Conservatives 2 points ahead of Labour. The Sunday Times estimated that the Tories were likely to lose 400 seats in the local elections, while Labour stood to gain about 600.

The Sunday Telegraph poll said 52 per cent of voters thought Mr Major had been bold in dealing with the poll tax. A Sunday Express poll said 54 per cent were in favour of the council tax.

Liberal Democrats, although standing at about 13 per cent or 14 per cent in the polls, remain pessimistic about Thursday's results, with one official admiting at the weekend that the party might make net losses.

The party talks instead of raising its influence in areas of strength, issuing a list of 12 councils where it expects to take control. They include Cheltenham and Eastbourne.

Council tax, Page 8; Letters, Page 17

NEWS IN BRIEF

Ulster talks will start tomorrow

THE FIRST discussions in the round-table talks on Northern Ireland's political future will be between government ministers, the nationalist Social Democratic and Labour party and the Alliance party, Ralph Atkins writes. The talks start tomorrow.

Leaders of the Unionist parties are not expected to meet Mr Peter Brooke, Northern Ireland secretary, until late this week. The first plenary, involving all the political parties and covering devolution in the province, is expected to be held next week.

The Irish government will enter the talks later, when discussions are extended to include the relationship between north and south Ireland and between London and Dublin.

Assault on crisps

EUROPEAN legislation that would outlaw certain flavours of British crisps may be blocked by Euro-MPs.

The European Commission is refusing to change a draft directive on the use of sweeteners that would outlaw the process for producing different flavours. Crisps were omitted from a list of exempted foods.

The draft legislation must now go to a second reading in the European parliament.

European bank plea

A EUROPEAN central bank should be based in London, already the leading financial centre of Europe, Lord Alexander of Weedon, chairman of National Westminster Bank, said yesterday.

Writing in NatWest's Quarterly Review, he urged the government to play a positive role in the development of the European monetary system.

Food deficit

THE UK food industry is "losing the competitive war", Mr Paul Judge, chairman of Food From Britain, the government-funded export promotion group, said at a food exhibition in London yesterday.

"British food and drink was in deficit by £5bn last year," he said. "More than half of that is from products which can be grown in the UK."

Sales show consumers keen on cleanliness

By John Thornhill

IN SPITE of impressions to the contrary, Britain is increasingly becoming a nation of squeaky-clean people who wash their clothes regularly and take pride in keeping their homes spick-and-span.

According to a new report from Euromonitor, the market research company: "The 1970s hippies and 1980s punks have given way to the 1990s conformist, with the mid-1980s spending boom fuelling a youth culture geared towards smart and sophisticated attire and quality clothes."

Partly because of food hygiene scares, consumers have placed an increasing emphasis on cleanliness in the home in recent years and demand for household cleaning products, such as kitchen cleaners and washing powders, has grown strongly.

The overall market for such items grew by 8.7 per cent in 1989 and was estimated to have expanded by a further 7.1 per cent in 1990, showing few signs of abating, in spite of recession.

The trend towards more expensive clothes and fabrics has increased demand for specialist cleaning products, although not at the expense of environmental considerations, which, Euromonitor suggests, represent the "overriding influence" on the UK household cleaning market.

British consumers are increasingly using environmentally friendly trigger-action sprays and are rejecting phosphate-laden detergents.

However, in spite of the general increase in cleanliness, the humble bar of soap has surprisingly been one of the few in the market to suffer and has steadily lost sales to more sophisticated products.

Household Cleaning: UK and European Trends and Forecasts to 1995. Euromonitor, 87-88 Turnmill Street, London. EC1M 5QU. £650.

Smoking diesels blamed as main source of pollution

LORRIES and cars are now the main source of smoke pollution, according to the National Society for Clean Air. The society, in a report published today, expects the position to get worse.

The society mainly blames smoking diesel engines and lack of official control. Its report says police and environmental health officers should be empowered to make regular checks on smoking vehicles.

In spite of tougher environmental standards for new cars, there is no effective system for curbing smoking lorries and cars once they are on the road, the society says.

The Department of the Environment now encourages the public to report smoking vehicles to Department of Transport area offices, but the society's survey showed that the DoT response was uncertain and confused.

Fox move to Thames TV aids franchise bid

By Raymond Snoddy

SIR Paul Fox has joined the board of Thames Television just a few days after retiring from the BBC as managing director of network television.

The arrival of Sir Paul, who is president of the Royal Television Society and who will attend his first Thames board meeting on Wednesday, is a boost to the ITV company in its campaign to retain its franchise.

Thames, the largest ITV company, will be challenged for its franchise in next month's bids by Mr Michael Green's Carlton Communications and by a joint venture linking Mr David Frost, the broadcaster, and Mr Richard Branson's Virgin group.

Sir Paul, former managing managing director of Yorkshire Television, also confirmed yesterday that he would be chairman of Daybreak, an Independent Television News-led bid to oust TV-am, the breakfast television company.

Apart from ITN, the Daybreak consortium includes Carlton; The Daily Telegraph; MAI, an advertising group; NBC, the American network company; and Taylor Woodrow, the construction company.

Sir Paul was critical yesterday of TV-am's Gulf war coverage. He said ITV had decided to follow TV-am each morning with news from ITN to put right the deficiencies of the breakfast company.

Later today, another ITV bidder will announce its plans – Television Northern Ireland (TVNI), which will bid for the franchise held since the early days of ITV by Ulster Television.

The Duke of Abercorn, the former MP for Fermanagh and South Tyrone, is to chair a consortium backed by Thomson Regional Newspapers, publishers of Northern Ireland's largest newspaper, The Belfast Telegraph.

The consortium brings together a number of leading Ulster businessmen, including Mr Roy Bailey, president-designate of the local CBI. TVNI's programme controller, Mr Alan Wright, was the original producer of the local magazine programme, Good Evening Ulster, and until recently was head of programmes at Chrysalis Television.

In what has turned out to be a ferocious battle for the Northern Ireland licence in spite of the political sensitivities, another bidder, Lagan Television, has entered the fray.

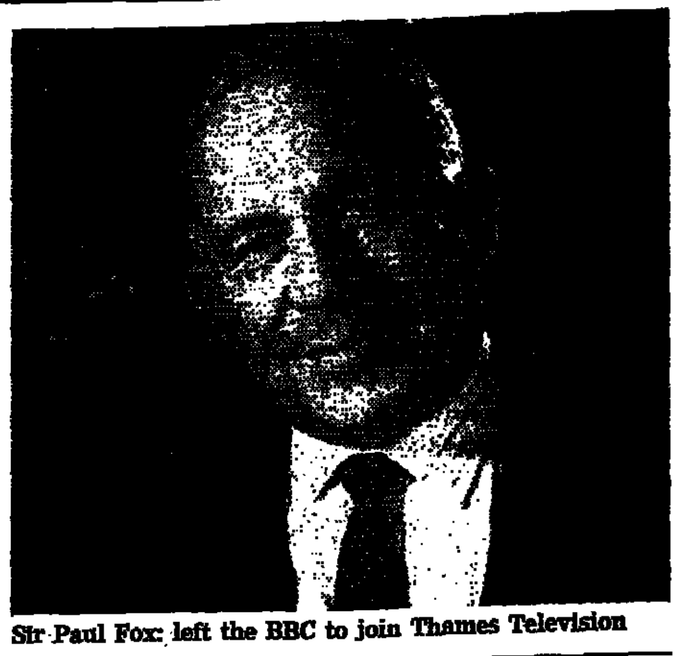
Lagan is being advised by Mr Bryan Cowgill, the former managing director of Thames Television. The Lagan consortium, which says it is oversubscribed, includes boxing promotor Barney Eastwood, and Mr R.J. McCartney, QC, a leading local lawyer.

TVNI and Lagan will argue the need for better-quality local programmes in Northern Ireland and will express a desire to make a more significant contribution to the ITV network than Ulster has so far done.

It is unlikely that the Northern Ireland television franchise will go simply to the highest bidder.

The Independent Television Commission will almost certainly want to weigh Ulster Television's experience of coping with Northern Ireland's political troubles against the bidders' promises of more exciting local and network programming.

Appointments, Page 12



Sir Paul Fox: left the BBC to join Thames Television

British Gas considers Ofgas price formula

By Deborah Hargreaves

THE BOARD of British Gas met late yesterday for last-minute consultations over the new tariff price formula suggested by the company's regulator, the Office of Gas Supply (Ofgas).

It looks increasingly likely that the company will accept the proposals, which will impose tough controls on the prices British Gas can charge its 17m domestic gas users for the next five years.

If British Gas rejects the formula, it will have to submit its arguments to a full investigation by the Monopolies and Mergers Commission. That would involve the disclosure of additional information showing exactly where it makes its profits.

The new formula will set a limit on the inflation-related price rises British Gas can impose on domestic users. That will be done by increasing the efficiency factor, which has to be taken off the rate of inflation to achieve the rate at which gas prices can rise.

By raising the efficiency factor to 3 to 5 percentage points from its present level of 2 percentage points, Ofgas will force the company to trim its costs, possibly by cutting jobs.

The regulator is also expected to insist that British Gas does not pass through the full rise in its North Sea gas costs to users in an attempt to make the company develop its own gas fields more efficiently.

Mr James McKinnon, director-general of Ofgas, could also announce a new set of service requirements for British Gas to uphold today since consumer groups have urged that efficiency cuts should not affect service standards.

The regulator is putting additional pressure on the company over negotiations it is holding with two power station ventures on the price of gas after the company's 35 per cent price rise for new power station gas purchases in March.

Mr McKinnon would like to see Thames Power and a Mobil/Eastern Electricity power station venture agree to take gas under the new price schedule, but to receive damages through the civil courts that will reduce the price of their gas to the pre-increase level.

Other electricity companies are watching the talks closely and are threatening a round of writs if the two new power stations are given what they see as preferential treatment.

Council tax may increase PSBR by £5bn a year, report says

By Neil Buckley

THE introduction of the new council tax may lead to a £5bn-a-year increase in the public-sector borrowing requirement, requiring increased issues of gilts or a delay in tax cuts, a report published by Midland Montagu Research warns today.

The report, which appears in Midland Montagu's Greenwell Gilt Weekly, says that the government's attempts to minimise the local tax burden on individuals through subsidies to local authorities or transitional relief schemes may increase public-sector borrowing in the next three years.

Councils have borrowed much more than forecast in recent years. In 1990-91, councils borrowed a record £3.5bn, more than the total borrowing in the four years before.

High wage settlements and greater demands on local services may push up council spending even further in the coming year.

Borrowing might increase still more in the short term, as the report fears that the rate of collection of the poll tax may fall.

"Now that the government line is to abolish the tax – as it is 'uncollectable' – it is unlikely that the collection rate will pick up in the coming year," the report says. "It would not be surprising if the commitment of some authorities to tax collection also wavered."

In the medium term, higher subsidies from central government may be required to keep poll tax bills down in the year 1992-93, especially if the collection rate has fallen the previous year. Because of the political sensitivity of the issue, no government could allow bills to grow too big.

In the long term, the introduction of the new tax in 1993-94 may lead to higher spending – as happened when the poll tax was introduced. That is because the reorganisation might again "muddy the waters of responsibility and accountability".

Local authorities might increase spending on services, and blame that on central government cuts. After the poll tax embarrassment, the government might feel compelled to raise grants to authorities to spare the taxpayer.

For 1991-92, the report forecasts the contribution of local government overspending to the public-sector borrowing requirement might be almost £2bn. In later years the cost of introducing the new tax might increase the PSBR by £5bn or more.

The report claims the council tax will be more workable than the poll tax, and says that ultimately it could have a positive effect on public finances, by bringing greater stability, and making it more difficult for local authorities to go on "spending sprees".

Pledge on unprofitable rail lines

By Emma Tucker

MR Malcolm Rifkind, the transport secretary, said yesterday that privatisation of British Rail would not proceed without safeguards to protect unprofitable lines.

The government has yet to say which of various options it will choose for the break-up of BR's monopoly, but Mr Rifkind said he was considering opening up use of the existing rail networks to new operators.

"Certainly what we hope to see is either the whole of British Rail or a very substantial proportion of British Rail in the private sector during the course of the next parliament," he said on BBC Television's On the Record programme.

"We accept that when the railways are privatised it will be necessary for the government to continue giving financial support to ensure that all railway services that are socially necessary are able to continue providing that service," said Mr Rifkind.

He said operators that wanted to run services on unprofitable routes would be asked for their assessment of the minimum subsidy they needed.

If BR could provide the service with a subsidy, it would be awarded the contract, but anyone providing the same service at less cost to the taxpayer would also be considered, Mr Rifkind said.

He could see no reason, so long as safety standards were met, for other operators not to be granted access to all BR's track if they wanted to provide freight or passenger services.

Privatisation of BR, which would be included in the Conservative party manifesto, will probably happen in the mid 1990s, Mr Rifkind said.

UK NEWS

Regulation dispute may delay start of Taurus

By Richard Waters

A DISPUTE has broken out between the City of London institutions and the government over who should regulate Taurus, the automated system which will handle the settlement of stock market transactions.

The disagreement is threatening further delays to the project, which has already been deferred from October until next Spring.

The latest dispute centres on whether the Department of Trade and Industry should oversee the system, or whether it should delegate the job to the Securities and Investments Board and the self-regulating organisations (SROs) set up under the Financial Services Act.

Oversight of the many brokers, company registrars, custodians and institutional investors who "plug in" to the Taurus system will be one of the biggest and most important regulatory jobs in the City.

Their "fitness and properness" to be part of the system, and their financial stability, will need to be assured to protect investors from fraud and other losses once the process of settling stock market transactions has been automated.

Mr John Redwood, minister for corporate affairs, is thought to fear that giving the job to SIB and the SROs would lead to an unwarranted increase in bureaucracy linked to the Financial Services Act.

It would bring company registrars (which maintain share registers on behalf of companies) and custodians (which maintain shareholdings for institutional investors) within the remit of the FSA regulators for the first time.

Cutting out the SIB, on the other hand, would mean giving more regulatory power to London's International Stock Exchange, which is to build and run Taurus. This would be a significant development for the Exchange, which had its regulatory functions emasculated by the FSA. The Stock Exchange hinted at further delays in the introduction of the system when it said that Taurus will be launched "in the first half" of 1992.

TROUBLE ON THE RAILWAYS

Tube staff face changed working practices

By John Gapper, Labour Editor

LONDON Underground is to revive controversial flexibility proposals for its 22,000 staff which could allow station staff to sell tickets as well as supervising platforms. The move is expected later this year despite current conflict over job cuts.

The plans are being considered amid a dispute over the corporation's attempt to cut 1,005 jobs because of financial difficulties. The RMT rail union is expected to announce today that members have voted for industrial action.

Flexibility in the working practices of station staff, which would pave the way for a multi-skilled senior grade of station employee, is being discussed by a union and management working party. A broad set of flexibility proposals known as Action Stations was among the causes of one-day strikes in 1989.

London Underground has already drawn up plans to suspend any workers who take part in industrial action over the job cuts. Members of the TSSA white collar union have voted for strikes by a 575 to 289 majority.

Mr Roger Straker, London Underground personnel director, said the RMT was challenging the corporation's right to change the size of its workforce.

"They are asking us to put the clock back, and the answer has to be no," he said.

Mr Straker said London Underground would negotiate further over job cuts, but the corporation would "take a very hard line indeed" if there were strikes.

The corporation wants to avoid a protracted campaign of selective action.

It wants to increase the flexibility of booking staff, who are currently grouped into five separate grades and carry out no other platform work.

It wants flexibility for employees who operate as "relief" workers when rostered staff are absent to substitute for all grades of platform staff rather than being confined to substituting only for their own grade.

It also wants more freedom for platform staff to undertake some booking office work. Although the basic grade structure would remain separate, there might be a unified grade of senior employee who could undertake both types of work.

Broad flexibility proposals were at the heart of the Action Stations package, large parts of which were dropped when they provoked a series of one-day strikes in 1989.

Unease among rail unions gathers steam

John Gapper looks at the risk to commuters of another 'summer of discontent'

As spring turns to summer the temperature of discontent is rising on the railways. This afternoon, Mr Jimmy Knapp is likely to alarm London Underground passengers by announcing that his union has voted for 24-hour strikes on the network.

That is only the start: it decided on Friday to ballot for similar action on British Rail. Threats of simultaneous industrial action on both networks are familiar enough to commuters.

The series of one-day strikes in the "summer of discontent" in 1989 caused extensive disruption before helping to force better terms for the unions. There is a danger that passengers will get caught in the crossfire again this summer.

The echo of 1989 comes from more than a confluence of disputes on the two networks. The complications of the argument are as deep as last time, involving changes in working practices as well as pay.

The background is also similar: efforts by managers to force uncomfortable change on workers amid financial constraints.

The difference between now and two years ago is one of intensity. The financial problems of both BR and London Underground have grown to the point where the managers are heavily squeezed.

The recession has forcing a £350m rise in BR's external financing limit; the Underground has sustained losses of £92m. Once again, the outcome will depend heavily on which side engages the public's sympathy.

Passengers face the threat of industrial action on both underground and rail networks

The 1989 dispute taught rail employers not to take for granted that commuters blame rail workers.

The British Rail dispute has so far been a simple wrangle about pay. Because of the board's financial problems, it made an initial offer of 6.5 per cent, improving it a little last week to what it said was its final offer of 7 per cent.

If extended to cover all 120,000 employees, it would add £133m to BR's stretched finances. Mr Knapp talks of the February inflation figure of 8.9 per cent being the RMT's "bottom line."

Mr Paul Watkinson, BR's employee relations director, says that to offer more would be "irresponsible". BR has accepted a call from Aslef, the train drivers union, to take the dispute to the Railway Staffs National Tribunal, the industry's arbitration machinery.

However, the RMT has decided to ballot 60,000 members on industrial action despite the arbitration. The 1989 dispute was resolved through the RSNT when it recommended an 8.8 per cent award for white-collar staff rather than BR's "final" 7 per cent offer.

However, the dispute could become more complicated. BR is in the middle of restructuring working patterns by introducing flexible rostering over seven days a week which will bring down overtime rates.

In return it is offering improvements in basic wage rates: it will put initial proposals for drivers to Aslef this week.

If there is a pay dispute, restructuring could get tangled up in the way that changes in bargaining became part of the 1989 dispute. The London Underground dispute has also started over a simple issue: the right of the corporation to make job cuts.

Mr Roger Straker, London Underground's personnel director, says these cuts are no more than prudent use of staff.

London Underground managers have already drawn up plans to suspend workers who take part in industrial action rather than allowing a long campaign of selective strikes. This raises the possibility of huge disruption if the RMT implements action over cuts it says will lead to relatively small savings of £400,000.

Managers are counting on gaining public support for brisk action against the RMT, which they believe is led by a hard left faction.

But they may face difficulties if the RMT plays successfully on passenger disenchantment with services and staff cuts. The most potent element of the job losses would be the removal of 30 workers employed following the King's Cross fire to ensure that dust trays under escalators are cleared daily.

London Underground says automatic cleaning equipment makes this unnecessary, but it was one of the recommendations of the Fennell inquiry into King's Cross.

This combustible mixture of grievances and pressures is already warming as the pay settlement date of April 8 recedes without a pay rise in immediate prospect.

It could be settled by a mixture of arbitration and horse-trading over numbers. But there is a danger of the summer of 1989 making an uncomfortable return.

Trade department to push for innovation and cutting red tape

By Ralph Atkins

MR PETER LILLEY, trade and industry secretary, is to announce a revamp of his department's formal objectives this week in a speech setting out a free-market industrial policy for the 1990s.

A greater emphasis on quality of staff, innovation, and deregulation will be included in a working of departmental objectives as set out in 1987 by Lord Young, then trade and industry secretary.

Mr Lilley's speech follows a "brainstorming" weekend summit of DTI ministers last month.

Speaking at the Institute of Directors in Birmingham, central England, Mr Lilley will set out a non-interventionist role for government in industry, but he will stress his belief that the DTI has a role in promoting innovation.

His speech comes as the opposition Labour party steps up its attack on the government's handling of the economy. Mr Gordon Brown, Labour's trade and industry spokesman, said the DTI had become "an adventure playground" for the No Turning Back Group of Thatcherite Conservatives of which Mr Lilley is a member.

Lord Young set objectives of creating more competitive markets, improving information available to businessmen, extending privatisation and protecting consumers and investors.

The emphasis was on enterprise, wealth creation and in reducing red tape.

Mr Lilley will aim to build on, rather than alter, that free-market approach. But he will seek to counter critics' claims that the government does not have an industry policy. He will argue that the long-term decline in manufacturing has been halted in the past decade.

Mr Lilley will also cite government efforts to win contracts in Kuwait for British companies as an example of how partnership is possible between industry and government.

News International faces dispute over staff cuts

By Michael Smith, Labour Correspondent

LEADERS OF the EETPU electricians' union are likely this week to order a ballot that might lead to the first significant industrial dispute at News International's London facility since the plant was set up five years ago.

The union said that about 300 members at the plant in Wapping, east London, had requested the industrial action ballot at the weekend after the company's announcement of 185 redundancies - about 130 at Wapping and the rest at two other plants in Glasgow and near Liverpool.

Union members, who are among 1,500 production workers employed in the UK by Mr Rupert Murdoch's News International, are angry at the company's decision to put production workers on a five-day week or nine-day fortnight, against the present four-day week.

News International said yesterday that it was increasing salaries by 7 per cent to compensate for the changes.

This move takes minimum salaries for pressroom workers to £27,000.

Mr Bob Shannon, the EETPU's national officer, said that about 40 Wapping workers had joined the union at the weekend. The union's main aim was to get the company to agree to talks.

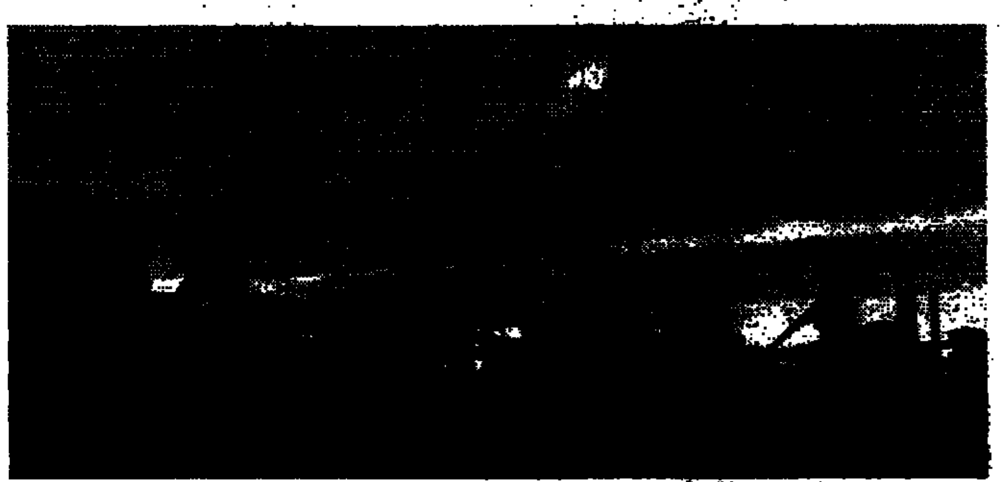
Although the EETPU claims membership of about 60 per cent, it does not enjoy collective bargaining rights.

The redundancies and changing work patterns form part of general cost-cutting after the completion of News International's debt restructuring.

Mr Shannon said any ballot would be likely to include questions on both striking and action short of stoppages.

Gloom governs the manufacturing outlook

Peter Marsh looks behind the CBI's latest worries over when a recovery in production will take place



Dusk at Scunthorpe steelworks: will the sun rise again for the manufacturing sector?

ARE they waving or drowning? The question is being asked of UK manufacturers, whose capability to mount a sustained recovery from the recession is coming under scrutiny.

The Confederation of British Industry last week said that parts of manufacturing industry were in a slump, with order books in many sectors lower than for 40 years.

In recent weeks, official statistics have shown a slowing in the rate of growth of exports and a large decline in manufacturing output between January and February. Publication tomorrow of the latest CBI quarterly survey will give a more detailed view of manufacturers' prospects.

Even though manufacturing accounts for just over a fifth of total UK output – down from a third in the mid 1970s – the sector has a disproportionate importance for the UK economy. Many other parts of the economy, including most service sectors, feed off it. Four fifths of UK exports are factory-made goods.

Since manufacturing production reached an all-time peak last March, it has fallen by more than 7 per cent. In that period, employment in the sector has declined by about 170,000 – some 3 per cent of the workforce. The CBI expects another 300,000 jobs to be lost by the end of 1992. Many manufacturers are pinning their hopes on an economic upturn around the summer. The likely path of any recovery is bound up with the changes in UK manufacturing since the 1980-81 recession, which claimed 2m jobs in the sector. Since then, according to one argument, companies have become better managed, more efficient and subject to fewer disruptive labour practices.

Others, however, point to a large projected fall in manufacturing investment this year. They are also concerned about the disappointing results in recent years by British businesses in high-tech areas such as electronics and advanced engineering.

Mr Correlli Barnet, a Cambridge historian who is a specialist on Britain's industrial decline since the Second World War, says: "During the 1980s we have seen a lot of successful site clearance [in manufacturing], but not enough reconstruction."

Central to the argument is the CBI's forecast that manufacturing investment will fall this year by 17 per cent, after a 5 per cent decline in 1990. That followed several years of high capital spending – but allowing for a big reduction in outlays on plant and machinery in the early 1980s, it leaves levels of investment in UK manufacturing no higher than they were at the start of the decade.

According to some, that puts Britain at a disadvantage compared with other countries such as Japan and Germany, where production companies have steadily increased investment during the 1980s. One point of view is that companies will need to increase capital spending during the 1990s at a greater rate than during the past decade.

Against that, Mr Giles Keating, director of economic research at Credit Suisse First Boston, a Swiss-owned stockbroker, argues that bald figures do not always give an accurate description of the usefulness of new investment. "A lot of spending on capital now is more efficient than it was 10 years ago," he says.

In bare statistical terms, however, the outlook does not look promising for British factories in terms of investment. According to the Organisation for Economic Co-operation and Development, non-residential fixed capital formation in Britain – which includes much production-related investment – will decline by more than 3 per cent this year.

On the positive side, in recent years exporters have reversed the long-term decline in the proportion of world trade accounted for by UK goods. The proportion now stands at just over 6 per cent, as against just under that figure in 1986.

Even though manufactured exports have grown at a healthy rate over the past decade, imports have increased faster. That led Britain to switch from a surplus on factory-made items of £5bn in 1980 to a deficit last year of £11bn, itself an improvement on the record deficit in 1989 of £17bn.

In spite of the recession and what many in industry argue is an overvalued exchange rate, exports held up well last year and are still growing – albeit more slowly. In volume terms the underlying level of manufactured exports – which exclude erratic items such as ships, aircraft and gems – grew by 9 per cent between 1990 and 1989. Between the first quarter of 1991 and the comparable period last year, growth was cut to 2 per cent.

Mr Ian Thompson, chief economist at the Engineering Employers Federation, believes that the export record gives only one side to the story. He says that a large part of the increase in exports over the past few years is represented by the assembly or repackaging of imported manufactured goods, particularly in high-value areas such as advanced electronic equipment.

Although such "re-exporting" of goods bought from other countries is a factor of all modern industrial economies, Mr Thompson suspects that the growth of the phenomenon has been stronger in Britain in recent years than in other nations – although that is difficult to prove with hard data. "My contention is that the UK manufacturing sector will not be big enough to support the kind of expanding economy that we need in the 1990s," Mr Thompson says.

Business confidence will recover soon, LBS report suggests

By Edward Balls

BUSINESS confidence will recover significantly in the next few months, and output soon after, according to research published today by the Centre for Economic Forecasting at the London Business School.

Consumer confidence in the UK has recovered markedly since the end of the Gulf war, the researchers say. Yet producer confidence remains stuck at the low levels it sank to last autumn, in spite of the end of the war and the return of oil prices to pre-war levels.

Business confidence should have returned to its pre-war trend by now, the researchers say. Using statistical techniques that purport to estimate the trend, they argue that businesses in the UK remain unduly pessimistic.

The latest Confederation of British Industry quarterly industrial trends survey, to be published tomorrow, should show a recovery in business confidence, according to the LBS research.

The LBS estimates that the percentage of respondents expecting output to fall over the next four months should exceed those expecting it to rise by only 15 percentage points, compared with 24 percentage points in the March monthly survey.

Leaked results from the CBI April survey suggest less of a recovery in business confidence. The percentage-point difference between those businesses expecting output to fall rather than rise has fallen to a balance of just eight, according to a report in The Independent on Sunday.

The Gulf War: recession and recovery. Centre for Economic Forecasting, London Business School, Sussex Place, London NW1 4SA.

Rolls-Royce job cuts rise

By Emma Tucker

THE number of staff to be shed at the Rolls-Royce aero-engine plant in Bristol has been increased by 200 to a possible 1,000, it was announced yesterday.

Union officials have been warned of possible compulsory redundancies to the company's 8,000-strong workforce if the 1,000 job cuts are not met through voluntary redundancies and early retirement.

The unions have blamed the lack of takers for voluntary redundancies on poor pay-offs – the maximum being £4,000.

Rolls-Royce blamed the company's 3,000 job losses in the UK on the world recession and the effect of the Gulf war on international airlines.

In January the company announced job cuts of between 1,200 and 1,500 jobs at its Derby commercial aero-engine operations. Derby, where most of Rolls-Royce's commercial engine business is based, employs about 15,000 people.

THE MALAYSIA CAPITAL FUND
International Depositary Receipts
issued by
Morgan Guaranty Trust Company of New York

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Malaysia Capital Fund Limited (the "Company") will be held at Cayside Galleries, Harbour Drive, George Town, Grand Cayman, Cayman Islands, British West Indies on 21st May, 1991 at 10.15 am (or so soon thereafter as the adjourned meeting of the holders of Warrants in the Company convened for 10.00 am on that day concludes or is adjourned), for the purpose of considering and, if thought fit, passing the Ordinary Resolution set out in the notice of the said Meeting set out above.

Holders of International Depositary Receipts ("IDRs") representing the ordinary shares of US$1.00 each in the Company (the "Shares") should note the following:

(a) [illegible]

(b) [illegible]

(c) [illegible]

(d) If, prior to 20th May, 1991, no instructions are transmitted in accordance with (c) above to the Depositary with respect to the voting of any Shares at the Meeting referred to above, the Depositary shall use its best endeavours to give a discretionary proxy to a person nominated by the Company in respect of such voting rights.

(e) [illegible]

Depositary
Morgan Guaranty Trust Company of New York
Avenue des Arts 35
B-1040 Brussels

Agents
Morgan Guaranty Trust Company of New York
1, Angel Court
London EC2R 7AE

[illegible] 38
Zurich 8025

[illegible]
[illegible] 46
D-6000 Frankfurt am Main

NOTICE OF EXTRAORDINARY GENERAL MEETING OF THE SHAREHOLDERS OF THE MALAYSIA CAPITAL FUND LIMITED

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Shareholders of The Malaysia Capital Fund Limited (the "Company") will be held at Cayside Galleries, Harbour Drive, George Town, Grand Cayman, Cayman Islands, British West Indies on 21st May, 1991 at 10.15 a.m. (or so soon thereafter as the adjourned meeting of the holders of Warrants in the Company convened for 10.00 a.m. on that day concludes or is adjourned) for the purpose of considering, and if thought fit, passing the following resolution, which will be proposed as an Ordinary Resolution.

ORDINARY RESOLUTION

"THAT the Shareholders of the Company sanction such amendments to the terms and conditions endorsed on the bearer warrants of the Company to subscribe for shares in the Company (the "Warrants") as may be necessary to extend the termination of the Subscription Period of the Warrants (as defined in the Warrant Instrument) from 31st March, 1992 to 31st March, 1994."

By Order of the Board
Pierson, Heldring & Pierson (Cayman) Limited
Secretary

Date: 29th April 1991
Registered Office:
Cayside Galleries
Harbour Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

Notes:
(1) [illegible]
(2) Proxies need not be members of the Company

NOTICE OF MEETING OF THE WARRANTHOLDERS OF THE MALAYSIA CAPITAL FUND LIMITED

NOTICE IS HEREBY GIVEN that a meeting of the holders of the Warrants of the Malaysia Capital Fund Limited (the "Company") will be held at Cayside Galleries, Harbour Drive, George Town, Grand Cayman, Cayman Islands, British West Indies on 21st May, 1991 at 10.00 a.m. for the purpose of considering, and if thought fit, passing the following resolution, which will be proposed as an Extraordinary Resolution:

EXTRAORDINARY RESOLUTION

[illegible]

By Order of the Board
Pierson, Heldring & Pierson (Cayman) Limited

Date: 29th April 1991
Registered Office
Cayside Galleries
Harbour Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

Notes:
(1) The quorum for this meeting shall be 2 or more persons present, holding Warrants or voting certificates or being proxies and being or representing in the aggregate the holders of not less than 66 per cent of the Warrants for the time being remaining unexercised.

(2) If the meeting is adjourned for lack of a quorum, it is intended that the meeting be adjourned to a date not less than 21 nor more than 42 days after the date of this meeting, of which at least 10 days' notice will be given.

(3) Any two or more persons present holding Warrants or voting certificates or being proxies and being or representing in the aggregate the holders of not less than 33 per cent of the Warrants for the time being remaining unexercised will form a quorum.

(4) Warrants may be deposited with (or to the order or under the control of) Morgan Guaranty Trust Company of New York (the "Warrant Agent") for the purpose of obtaining voting certificates or giving instructions to vote to the Warrant Agent until 48 hours before the time fixed for the meeting but not thereafter.

J P Morgan

We work to maintain the right balance between profit and service.

The British Post Office is the only postal service in the European Community that is consistently self-financing and we are heading for our fifteenth successive year of profitable, subsidy-free operation.

This enables us to re-invest the money in improving services to our customers.

And, far from being a burden on the taxpayer, we've contributed over £700 million to the treasury in the past ten years.

According to an independent survey, we operate the most reliable letter service in Europe, offering the best value for money.

That's despite the fact that over the [illegible] decade, the total volume of mail handled has [illegible] by over half and it's still growing.

Now it has reached an all time [illegible] of 60 million letters a day. (And [illegible] with record reliability [illegible].)

But that's only part of the [illegible].

Our network of 20,000 [illegible] serves 25 million customers every [illegible].

Yet an independent [illegible] the queues move quicker than [illegible] building societies or supermarkets.

And Parcelforce, in a highly competitive market, is the nation's biggest parcel carrier with Datapost beating other delivery firms in tests of speed, price and service.

Now we're planning to invest more than a billion pounds to improve the speed, reliability and efficiency of our services even further.

And to ensure we maintain the right balance between profit and service for our customers.

THE POST OFFICE

هكذا من الاصل

Harrogate market project

LAING YORKSHIRE has landed the £18m contract to build Speyhawk Retail's shopping development on the former market hall site in Harrogate which is being financed by NPI (National Provident Institution).

As well as boosting shopping facilities in the town, the Victoria Gardens scheme will provide a new home for the market traders who are currently based in temporary accommodation adjacent to the site.

The new market hall will be located in the lower ground floor of the new development and above will be three levels of shopping around a central atrium, providing about 90,000 sq ft of retail space. In total, 58 shops are being provided catering for the needs of multiple retailers at ground and first floors, with smaller speciality units and two restaurants on the second floor.

Construction will comprise an in situ reinforced concrete frame, ornate natural external stonework and a curved copper perimeter roof.

The development includes a footbridge link over Station Parade which will be a steel-framed structure enclosed with curtain walling and a curved copper roof. The bridge will link the shopping centre to Harrogate Borough Council's new 700 space car park.

The building contract also involves internal finishes.

CONSTRUCTION CONTRACTS

Access to Glasgow Airport

BALFOUR BEATTY has been awarded by The Scottish Office what is believed to be the largest design and build road construction project in Britain. Valued at £28m the St James Interchange improvement is designed to relieve traffic congestion at the bottleneck to the west of Glasgow Airport.

The award followed several months of intense tendering by Balfour Beatty's Edinburgh office, working closely with its designers Scott Wilson Kirkpatrick & Partners, based in Glasgow. During the tendering period, Royal Fine Arts Commission approval had to be obtained by the contractor.

The St James Interchange improvement will involve the construction of two flyovers linking the A740 with the M8, each almost 800 metres long and consisting of a total of 14,000 cu metres of reinforced concrete and 4,000 tonnes of structural steel. Associated works include a railway bridge, extensive piling and six adjoining slip roads which will involve complex traffic management. Also included are extensive areas of settlement embankments, vertical drains and various other ground treatment measures, together with motorway lighting and traffic control systems.

Balfour Beatty aims to have the interchange open within 98 weeks of the start of construction.

Balfour Beatty is also working for The Scottish Office within the Strathclyde region on the construction of a major section of the new M74 motorway between Millbank and Abington.

£70m work for Gammon Construction

Contracts worth over £70m have been won by **GAMMON CONSTRUCTION**, the Hong Kong-based company jointly owned by the construction division of Trafalgar House and Jardine Matheson.

The largest is a subcontract with Chiyoda Corporation valued at £35.3m for the design, approvals, procurement and construction of all civil, building, mechanical and electrical services and fire protection work for Mobil Oil's Hong Kong fuels terminal project. Gammon was appointed the company's principal subcontractor early last year following completion of work with Chiyoda in Malaysia.

Gammon is already at work on site following an earlier contract award from Mobil Oil for the design and construction of the marine pier.

The second major contract award, worth £24.6m, involves the construction and fitting out of a seven-storey members' club house with an outdoor pool and deck area as well as all associated drainage and external works for the Royal Hong Kong Jockey Club.

Gammon's piling division has won new work worth over £10m for site investigations, substructure and bored piling.

£16m jetty development in Thailand

KIER INTERNATIONAL, the overseas contracting arm of Beazer, has won a £16m contract to design and build a jetty at Sri Racha in the Bight of Bangkok, for the Sri Racha Harbour Company. Work is being carried out in joint venture with Beazer Asia group companies in Hong Kong.

A fast-track approach will be applied to achieve a construction period of 12 months. The whole project is due for completion in August 1992.

Designed in-house by Beazer, the jetty will be a steel trestle type decked with precast concrete. It will be supported by steel piles measuring up to one metre in diameter. Around 30,000 cu metres of concrete and 10,000 tonnes of steel will be used during construction.

The structure, 3km in length, will begin to the south of an existing jetty and cross over it, finishing on its north side. At the crossover, the new jetty will be 10 metres above sea level.

Designed to accommodate up to 45,000 dwt vessels, the jetty will enable the importation of scrap metal for processing at a plant in Sri Racha.

New entrance for Strangeways Prison

MOWLEM MANAGEMENT has been awarded a £18m contract by the Directorate of Works, Home Office, to manage the construction of a new prison entry complex at Strangeways Prison, Manchester.

The new entry complex will include facilities for reception, discharge, visits and administration as well as providing a new entrance to Strangeways.

The main buildings will be of reinforced concrete construction clad with brickwork on piled foundations.

Pre-commencement work on the project has started with construction work scheduled to begin in May.

Part of the entry complex will be completed by mid 1992 and the whole project by April 1993.

The work is a major part of the overall refurbishment for HM Prison, Manchester.

APPOINTMENTS

Chairman of Total Oil in UK

■ Sir Philip Jones has been appointed chairman of TOTAL OIL HOLDINGS, succeeding Mr Patrick Burgin who remains a director. Sir Philip is chairman of Total Oil Marine, and a non-executive director of IVO Energy, and of Gas Transmission, and chairman of Dames & Moore, Barry.

■ Mr Michael Garston has been appointed chairman of the finance board of the TETRA PAK GROUP at its headquarters in Lausanne. He is a member of the group holdings board, and a non-executive director of the Tetra Pak companies in the UK. On April 30 he will be retiring as senior partner of Reynolds Porter Chamberlain, Tetra Pak's solicitors.

■ Mr Toshio Ishino has been appointed chief executive of HONDA UK, succeeding Mr Ikari who has become president of Honda Europe, parts operation, in Belgium. Mr Trevor Elliott has been appointed general manager, car division, and Mr Jeff Salik joins the division as marketing services manager. He was with Renault UK. Mr Barry Lawrence becomes customer relations manager.

■ DELPHAX SYSTEMS INC has appointed Mr Bob Groves as managing director, Europe, of its new subsidiary Delphax Systems (UK). He was managing director of BBN Communications.

■ Mr David Scaman has been appointed managing director of OPEN SYSTEMS DISTRIBUTION.

■ BIRMINGHAM MIDSHIRES BUILDING SOCIETY, Wolverhampton, has appointed Mr Guy Thomas as treasurer. He was treasury manager (Investments). His new responsibilities will include control of long and short term financing and the cash flow needs of the Society.

■ SILKOLENE LUBRICANTS, Belper, a Fuchs Group subsidiary, has appointed Mr Robert W. Wood as manufacturing and logistics director. He was works manager.

■ Mr Raymon Anning has been appointed chairman of SECURICOR CONSULTANCY, replacing Sir Colin Woods who remains on the board but will devote more time to his other Securicor Group responsibilities. Mr Anning joined Securicor last year. He was commissioner of the Royal Hong Kong Police.

■ Mr Garry Pithers has been made a director of the Eurodollar division of BUTLER HARLOW UEDA.

■ Mr Roy Crawford has joined Tyneside shipbuilder SWAN HUNTER as materials director. He was head of procurement and materials control departments on the Channel Tunnel scheme.

■ Mr Ian Weston, northern regional director of HSS Hire Shops, has been appointed to the board of HSS HIRE GROUP, a subsidiary of John Mowlem & Co.

■ Sir Simon Hornby, chairman of W.H. Smith Group, and a director of Pearson, and Lloyds Bank, has been appointed a non-executive director of LLOYDS ABBEY LIFE. Mr Michael H.R. Thompson, a deputy chairman of Lloyds Bank, and chairman of The German Investment Trust, also becomes a non-executive director. Sir Lindsay Alexander and Mr Norman Jones have retired as non-executive directors.

■ Sir Christopher Tugendhat has joined the board of LWT (HOLDINGS) as a non-executive director. He is chairman of the Civil Aviation Authority (until May 31) and chairman designate of Abbey National. Sir Christopher is a non-executive director of the BOC Group and of Commercial Union, and chairman of the Royal Institute of International Affairs (Chatham House).

COMPANY NOTICES

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the 158th ANNUAL GENERAL MEETING OF FRIENDS' PROVIDENT LIFE OFFICE will be held at GLAZIERS HALL, 9 MONTAGUE CLOSE, LONDON BRIDGE, SE1 9DD, ON WEDNESDAY 22ND MAY 1991, at 2.30 p.m. to transact the following business:–

(1) To receive the Accounts and Balance Sheet for the year ended 31st December 1990 and the Reports of the Directors and Auditors thereon.

(2) To re-elect as Directors of the Office the following Directors, who retire by rotation:

Frederick Cotton
Michael Doerr
Michael Fox
John de Havilland

(3) To re-appoint Price Waterhouse as the auditors to the Office and to authorise the Directors to fix their remuneration.

By Order of the Directors,
B. W. SWEETLAND, Secretary.
29th April 1991

Friends' Provident Life Office,
Pixham End,
Dorking, Surrey, RH4 1QA

NOTES

(a) A member is entitled to appoint another person (who need not be a member) to attend the above meeting and vote instead of him.

(b) To be valid the instrument appointing a proxy, which should be as near to the form set out in rule 30 of the Rules of the Office as circumstances admit, and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited at Pixham End, Dorking, Surrey, RH4 1QA, not less than forty-eight hours before the time fixed for holding the meeting, or adjourned meeting, or, in the case of a poll, not less than twenty-four hours before the time appointed for the taking of the poll.

(c) Proxy forms may be obtained on application to the Secretary.

(d) Members intending to attend and vote personally at the meeting should be prepared to quote their policy numbers.

(e) Only members are entitled to vote. Certain policyholders are not members. If a policyholder who is not also a member completes and returns a form of proxy, it will not be counted.

(f) Members have one vote each irrespective of the number of policies held.

(g) Members are entitled, on application to the Secretary, to receive a copy of the Report and Accounts.

THE ROYAL BANK OF CANADA
U.S. $350,000,000 Floating Rate
Debentures due 2005

In accordance with the Terms and Conditions of the Debentures, the interest rate for the period 30th April, 1991 to 31st May, 1991 has been fixed at 6⅛% per annum. On 31st May, 1991 interest of U.S. $5.328125 per U.S. $1,000 nominal amount of the Debentures will be due for payment. The rate of interest for the period commencing 31st May, 1991 will be determined on 29th May, 1991.

Agent Bank and
Principal Paying Agent
ROYAL BANK OF CANADA
EUROPE LIMITED

RENTALS

CLUBS

NOTICE TO HOLDERS OF

TOSOH CORPORATION

(formerly "TOYO SODA MANUFACTURING CO., LTD.")

(A) US$150,000,000 2 per cent. Guaranteed Notes 1992 with Warrants
and
(B) US$200,000,000 3¼ per cent. Guaranteed Notes 1992 with Warrants

Notice is hereby given to the holders of the notes, warrants or notes with warrants in respect of the captioned issues (respectively and collectively referred to as the "Notes," "Warrants" and "Notes with Warrants") that:

(1) The Company concluded the merger agreement with Shin-Daikyowa Petrochemical Co., Ltd., Yokkaichi Polymer Co., Ltd. and the Company on May 22, 1990;

(2) The merger under the above-mentioned merger agreement (the "Merger") became effective as of December 20, 1990;

(3) Following the Merger, the name of the Company remains unchanged and therefore there is and will be no stamping and no exchange of the Notes, Warrants or Notes with Warrants. The Notes, Warrants and Notes with Warrants continue and will continue to be listed on the Luxembourg Stock Exchange under their former denomination. The Company has kept and will keep its engagements regarding the payment of the principal of and interest on the Notes.

By: The Industrial Bank of Japan Trust Company
as Disbursement Agent for and on behalf of:
Tosoh Corporation

Dated: April 29, 1991

THE WEEK AHEAD

ECONOMICS

Markets looking for signs of move from recession

THE FOCUS this week will be on the pointers from the US and UK on the paths likely to be taken by the two countries as they emerge from recession.

A big worry for economic policy makers is the lack of synchronisation between trends in these two nations and in Germany.

In the case of the latter, demand has been racing away due to the pressures of reunification, delivering a dose of unwelcome inflationary pressures.

The US and Britain, meanwhile, are struggling with the consequences of low demand and sagging output. In recent weeks, indications of when an upturn in either economy might take place have been far from clear.

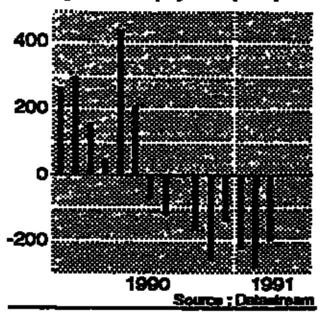
Of a raft of indicators in the US, among the most important data are the non-farm employment numbers, due on Friday. These are expected to show a fall in employment in April of about 130,000, a smaller figure than the 206,000 in March and hence an encouraging sign for anyone looking for an upturn.

Attention will also be directed towards other US figures such as the levels of consumer income and spending.

Wednesday marks the publication in the US of the important National Association of Purchasing Managers Survey which indicates the level of demand in the economy. This is thought likely to show a small upward movement from

US Employment

Civilian labour force changes, non agricultural payrolls ('000)



Source : Datastream

the 40 per cent reading in March, indicating a slight change for the better in terms of the economic outlook.

In Britain, all eyes will be on the publication on Tuesday of the Confederation of British Industry's latest quarterly survey of the level of confidence in manufacturing industry.

The UK government, which in the past two weeks has suffered a deluge of bad economic news, will the hoping the latest survey contains a few glimmers of hope that a recovery of sorts will start up on schedule around the middle of this year.

Other important economic figures and events due this week are as follows. Median market forecasts are in brackets and are provided by MMS International, the financial information group.

Today: US, March personal consumer income and spending (up 0.3 per cent and 0.2 per cent) and new home sales (up 0.3 per cent). France, March final consumer price index (up 0.1 per cent).

Tomorrow: US, consumer confidence index for April, March factory goods orders (down 3.2 per cent), agriculture prices for April, 1st quarter employment cost index. Japan, March construction orders and new starts (down 13 per cent). Canada, February level of building permits.

Wednesday: May Day – most continental European markets closed. US, March leading indicators and construction spending (down 0.5 per cent). Japan, April foreign exchange reserves.

Thursday: UK, official reserves in March (up $250m). Germany, regular Bundesbank council meeting. US, M1, M2 and M3 monetary aggregates for week ended April 22 (up 1.5 per cent, 3.3 per cent and 3.2 per cent). Japan, trade balance for first three weeks of April and for March.

Friday: Japan, Constitution Day, markets closed. US, April manufacturing payrolls (down 50,000) and civilian unemployment rate (7 per cent). Canada, foreign reserves and leading economic indicators.

During the week: Germany, March industrial production and money supply data.

Peter Marsh

RESULTS DUE

THE SPOTLIGHT has gone off Retrovir, the anti-Aids treatment, as far as followers of Wellcome, the UK pharmaceuticals group which manufactures it, is concerned.

The company is expected to say profits from the drug have been broadly flat when it unveils results for the half-year to March on Thursday.

Analysts will be looking for further signs that the chief executive, Mr John Robb, is adopting a more commercial approach to running the company.

Interim pre-tax profits should be no more than about £5m up on last time's £164.1m.

The two Scottish clearing banks produce their results on Wednesday. Both are expected to display the impact of the recession in the form of mounting bad debts.

Bank of Scotland's results will be for the year ending last February. Analysts are forecasting a decline of as much as a quarter from the previous year's £194m before tax. Royal Bank of Scotland will be producing interim results for the six months to March, and these will show a similar fall.

When Evered Bardon, the quarry products group, announces its 1990 results on Tuesday, it will be the last set of figures for the Evered group before the merger with Bardon early this year. Even so, historic comparisons will be difficult because of the rapid rate of acquisition in 1989 and early 1990.

Thanks to the purchases, pre-tax profit is expected to have risen to £44m, compared with £39m in 1989.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
ECC, The Brewery, Chiswell Street, E.C., 10.30
Edinburgh Oil & Gas, 10, Coates Crescent, Edinburgh, 12.00
Lionheart, Manchester Airport Hilton, Outwood Lane, Ringway, Manchester, 10.00
Murray Intl. Trust, 7, West Nile Street, Glasgow, 10.30
Newmarket Venture Capital, 14-20, Chiswell Street, E.C., 2.30
TR High Income Trust, 2, Puddle Dock, E.C., 12.30
BOARD MEETINGS:
Finals:
Laser-Scan
Mayflower
Moss Bros.
Wensum
Interims:
Lowland Inv.
TR Far East Income Tst.

■ TOMMOROW
English & Overseas Properties, Caledonian Street, 9, Halkin Street, S.W., 12.00
Hey & Croft, 12-14, New Fetter Lane, E.C., 12.00
Lambert Howarth, Dunkenhalgh Hotel, Clayton-le-Moors, Blackburn, 12.00
Portals Hldgs., Howard Hotel, Temple Place, The Strand, W., 12.30
Sema, 22 Longacre, Covent Garden, W., 10.00
Sanderson Murray & Elder, Harlow Court, Otley Road, Harrogate, 10.00
BOARD MEETINGS:
Finals:
Addison Consultancy
Evered Bardon
Futura
Greenacre
March
S. & U. Stores

■ WEDNESDAY MAY 1
Cadbury Schweppes, Royal Lancaster Hotel, Lancaster Terrace, W., 12.00
General Accident, Pitheavlis, Perth, 10.00
Linread, 75, Harborne Road, Birmingham, 12.00
Molins, Barber-Surgeons Hall, Monkwell Square, Wood Street, E.C., 12.15
Plaxton, Anston, Sheffield, 12.00
Radius, Ironmongers' Hall, The Barbican, E.C., 11.30
Sykes-Pickavant, Clifton Arms Hotel, Lytham St. Annes, 12.00
Wassall, Butchers' Hall, Bartholomew Close, E.C., 11.30
Worcester Group, Digiis, Worcs., 1.00
BOARD MEETINGS:
Finals:
Bank of Scotland
Black (A. & C.)
Huntleigh Technology
Jerome (S.)
Shiloh
Silentnight
Starmin
Interims:
Drayton Asia Tst.
Ensign Tst.
Fenner
Royal Bank of Scotland
Scottish Cities Inv. Tst.

■ THURSDAY MAY 2
BBA, Savoy Hotel, Strand, W., 11.30
Blagden Inds., Saddlers Hall, Gutter Lane, Cheapside, E.C., 12.00
Clyde Petroleum, Baltic Exchange, 19-20, St. Mary Axe, E.C., 12.00
Fisher (James), Lisdoonie Hotel, Abbey Road, Barrow-in-Furness, 12.00
Lilleshall, Chequers Hotel, Oxford Street, Newbury, Berks., 11.35
Midland Bank, 30, Threadneedle Street, E.C., 2.30
Paribas French Inv. Trust, Banque Paribas, 68, Lombard Street, E.C., 10.30
Pentland, Pentland Centre, Lakeside, Squires Lane, Finchley, N., 10.30
Servomex, Buxted Park Hotel, Buxted, Uckfield, E. Sussex, 12.30
BOARD MEETINGS:
Finals:
BDA
Cakebread Robey
Forward Group
Inch Kenneth Kajang
Kwik Save
Rathbone Bros.
Wellcome
Interims:
Blenheim

■ FRIDAY MAY 3
American Trust, 4, Melville Crescent, Edinburgh, 12.00
Church & Co., Northampton Moat House, Silver Street, Northampton, 12.30
Clarke (T.), Savoy Hotel, W., 12.00
Emess, Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, S.W., 11.00
Freeman, Freeman Kershaw's Offices, Ditton Walk, Cambridge, 6.00
Greggs, Gosforth Park Hotel, High Gosforth Park, Newcastle-upon-Tyne, 11.45
Low & Bonar, Bonar House, Faraday Street, Dundee, 12.00
MTL Instruments, Power Court Luton, 4.00
Spandex, 1600 Park Avenue, Aztec West, Almondsbury, Bristol, 10.00
Wates City of London Props., City Tower, 40, Basinghall Street, E.C., 10.30
BOARD MEETINGS:
Finals:
Scottish Television
Upton & Southern

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abbey National 6.36p
Alba 1p
Bensons Crisps 2.15p
Braime (T.F. & J.H.) 5.5p
Do. A N/Vtg. 5.5p
Camellia Invs. 16p
Campari Intl. 8.5p
Can. Imperial Bank of Commerce 33cts.
Canadian Pacific 23cts.
Cooper (Alan) 4.9p
Dartmoor Inv. Tst. 2.6p
Fils Indmar 3.9p
Instituto De Credito Official Stat. Gtd. Fltg. Rate Nts. 1992 $403.18
Lex Service 9.4p
Lowe (Robt. H.) 87.5% Cv. Cm. Rd. Pf. 4.375p
Do. 6½% 1st Cm. Pf. 2.275p
Renishaw 2p
Scot. Eastern Inv. Tst. 0.92p
Scot. & Newcastle Breweries 7.6% 1st Mtg. Db. 1989/94 3.8pc.

■ TOMORROW
Alexon 5% Cm. Pf. 1.75p
Amber Day 10½% Cm. Pf. 1999/2002 5.25p
Arcadian Intl. 8% Un. Ln. 1989/94 4pc.
Armour Tst. 10½% Un. Ln. 1991/96 5¼pc.
Attwoods (Finance) 8½p Gtd. Rd. Cv. Pf. 4.25p
Baltic 2.3p
Banco de Santander PT100
Bank of Nova Scotia Fltg. Rate Db. 2000 £342.28
Bankers Inv. Tst. 10½% Db. 2016 5¼pc.
Batleys 10% Cm. Pf. 5p
Beckenham 9% Rd. Cm. N/Vtg. Pf. 4.5p
Blacks Leis. 10% Cm. Pf. 5p
Black (Peter) 0.77p
Blundell-Permoglaze 7¼% Un. Ln. 1990/95 3⅝pc.
British-American Tobacco 6% 2nd Cm. Pf. 2.1p
Brixton Est. 6¼% 1st Mtg. Db. 1986/91 3⅛pc.
Brown & Tawse 7% Cm. Pf. 2.45p
Burmah Castrol 6% Cm. 1st Pf. 2.1p
Do. 6% Cm. 2nd Pf. 2.1p
Do. 8% Cm. Pf. 2.8p
Do. 7¼% Cm. Rd. Pf. 2.5375p
CRH Capital 6½% Cv. Cap. 2005 3.25p
Campbell Soup 29cts.
Cantors 7½% Cm. Pf. 2.625p
Capital & Counties 7.2p
Do. 5¾% Cv. Pf. 2.875p
Charring 4.9% Cm. Pf. 2.45p
Do. Cv. Cm. Rd. Pf. 3p
Conversion 9.5% Bds. 1995 4¾pc.
Cookson 7% Pf. 1.225p
Cowan de Groot 10½% Cm. Pf. 5.25p
Crowther (John E.) 5½% Cm. Pf. 1.925p
Dartmoor Inv. Tst. 6.25% RPI Linked Db. 2005 3.457pc.
Dow Chemical 65cts.
Dundee & London Inv. Tst. 5% Cm. Pf. 1.75p
EFT 0.7p
ERF 10% Cm. Pf. 5p
Ellis & Everard 7¼% Db. 1987/92 3⅝pc.
English Property 9⅞% 1st Mtg. Db. 1997/2002 4 15/16pc.
Estates Property Inv. 10% 1st Mtg. Db. 2011 5pc.
Do. 7¾% Un. Ln. 1989/92 3⅞pc.
Evans of Leeds 11% 1st Mtg. Db. 2025 5½pc.
First Natl. Finance 10% Sub. Un. Ln. 1992 5pc.
Foreign & Colonial Inv. Tst. 7% Un. Ln. 1988/93 3½pc.
Gartmore Value Invs. 12.34% Db. 1995 6.17pc.
Global Group 0.5p
Great Northern Iron Ore Props. Trustee Certs NPV 145cts.
Green (Ernest) & Partners 2.75p
Grovewood Securities 1p
Guildhall Property 6% Cm. Pf. 2.1p
Halifax Bldg. Society Fltg. Rate Ln. Nts. 1995 (Ser.A) £58.56
Haynes Publishing 1p
Heavitree Brewery 11½% Cm. Pf. 5.75p
Howden Group 8¾% Db. 1986/91 4⅜pc.
Do. 7¾% Db. 1986/91 3⅞pc.
Intereurope Tech. Servs. 2p
Jackson (Wm.) 7½% Cm. Pf. 2.625p
Johnson Matthey 8½% Mtg. Db. 1985/95 4¼pc.
Kingfisher 8½% Cv. Un. Ln. 2000 4¼pc.
Kleinwort Development Fund 2.75p
Kleinwort Benson Intl. Inc. Bd. Ptg. Rd. Pf. Inc. 18p
LASMO Oil Production 14.3298p
Land Securities 6% 1st Mtg. Db. 1988/93 3pc.
Do. 7¼% 1st Mtg. Db. 1991/96 3⅝pc.
Latham (James) 8% Cm. Pf. 4p
Logica 1.15p
London American Ventures Tst. 3½% Db. Rd. 1¾pc.
Do. 4% Db. Rd. 2pc.
London Merchant Securities 7¾% Cv. Un. Ln. 2000/05 3⅞pc.
Lookers 4.2p
Lowe's Co's 13cts.
Macanie (London) 7½% Un. Ln. 1988/91 3¾pc.
Do. 7¾% Un. Ln. 1986/91 7¾% Un. Ln. 1986/91 3⅞pc.
Maunders (John) 2.3p
Mayne Nickless 17.5cts.
McAlpine (A.) 9% Cm. Pf. 4.5p
Natl. Westminster Bank 9% Sub. Un. Ln. 1993 4½pc.
Newarthill 6.775% Cm. Pf. 3.3875p
Nova Scotia (Province of) 16¾% Ln. 2011 8⅜pc.
PHH Corp. 30cts.
Peel Hldgs. 10% Cm. Pf. 2.5p
Do. 9⅞% 1st Mtg. Db. 2016 4 15/16pc.
Peel South East 12.5% 1st Mtg. Db. 2015/20 6.25pc.
Do. 11.625% 1st Mtg. Db. 2018 5.8125pc.
Do. 10% 1st Mtg. Db. 2026 5pc.
Portsmouth & Sunderland News. 6% Cm. Pf. 3p
Do. 11.5% 2nd Cm. Pf. 5.75p
Racal Elect. 7% Cv. Un. Ln. 2009/14 3½pc.
Ransomes 8.25p Cm. Cv. Pf. 4.125p
River & Mercantile Tst. Stppd. Pf. 2.431012p
Rockware 7.25% Cv. Cm. Rd. 2nd Pf. 3.625
Royal Bank of Can. Fltg. Rate Db. 2005 US$59.58
SCEcorp 68cts.
Scottish Inv. Tst. 4¼% Perp. Db. 2⅛pc.
Do. 4% Perp. Db. 2pc.
Do. 5% Perp. Db. 2½pc.
Scot. & Newcastle Breweries 4.6% Cm. Pf. 2.3p
Do. 6.425% Cm. Pf. 3.2125p
Seagram Distillers 12⅛% Db. 2012 6 1/16pc.
Shaw Carpets 8½% Db. 1988/93 4¼pc.
Shires Inv. 4.1p
TMC PIMBS Fourth Fin. £200m Nts. Iss. 5 April 2029 £348.08
Do. First Fin. £250m Nts. Iss. 2 July 2029 £345.75
Do. Third Fin. £100m Fast Pay Nts. Iss. 4 Oct. 2029 £345.75
TR City of London Tst. 10¼% Db. 2020 5⅛pc.
TR High Inc. Tst. 1p
TT 10.875% Cv. Cm. Rd. Pf. 1997 4.20103p
Templeton Emerging Mkts. 1% Cv. Un. Ln. 2001 0.5pc.
Texaco Int. Fin. 8% Stg/$ Cv. Gtd. Ln. 1981/99 4pc.
Thorntons 1.2p
Transamerica 49cts.
Trusthouse Forte 7.25% 1st Mtg. Db. 1986/91 3.625pc.
Do. 10.5% Mtg Db. 1991/96 5.25pc.
Do. 9.1% Un. Ln. 1995/2000 4.55pc.
USF & G 5cts.
Vaux 7% Cm. Pf. 2.45p
Do. 4½% A Cm. Pf. 1.575p
Do. 6½% A Cm. Pf. 2.275p
Waverley Cameron 6% Cm. Pf. 4.2p
Wells Fargo Fltg. Rate Sub. Nts. 1992 $57.58
Do. Fltg. Rate Sub. Nts. 2000 $57.78
Western Mining 13cts.
Wood (Arthur) 4.1p

■ WEDNESDAY MAY 1
AMEC 6.5p Cm. Cv. Rd. Pf. 3.25p
APV 4.55% Cm. Pf. 2.275p
Do. 5.25% Cm. Pf. 2.625p
Do. 3.15% Cm. Pf. 1.575p
American Info. Tech. 85cts.
AT & T 33cts.
Appleyard 5.2p
BET 4½% 2nd Db. 2¼pc.
BTP 7.5p Cv. Cm. Rd. Pf. 3.75p
Bardon 1.9p
Bell Atlantic 63cts.
Bellsouth 69cts.
Bristol Corp. Db. (3½%) 3½pc.
British Inv. Tst. 5½% Pf. 1.8375p
British Mohair 6% Rd Cm. Pf. (1995) 2.1p
British Shoe Corp 6½% Cm. 3rd Pf. 2.275p
Creata Hldgs. 1.3p
Dunedin Worldwide Inv Tst. 3½% Cm. Pf. 1.75p
ELF UK 12¼% Un. Ln. 1991 (Reg) 6⅛pc.
Do. (Br) 6⅛pc.
Edinburgh Inv. Tst. 7½% Db 1995 3¾pc.
Evered Bardon 7.25p Cv. Rd. Pf. 2.5p
Exchequer 3% Gas 1990/95 1½pc.
Frogmore Estates 3.2p
Genfinance 11 31% Ln. 2007 (Reg) 5.656pc.
Do. (Br) 5.656pc.
Glaxo 7¾% Un. Ln. 1985/95 1.9375p
Guaranteed N. Ireland 4½% Bd. (Red) 2¼pc.
Halifax Bldg. Society Fltg. Rate Nts. 1997 £863.25
Hardys & Hansons 5% 1st Cm. Pf. 1.75p
Do. Irrd. 4% 1st Mtg. Db. 2pc.
Howden 1.59p
Intl. Stock Exchange of UK & Rep. of Ireland 10⅛% Mtg. Db. 2016 5 1/16pc.
King & Shaxson 5% Cm. Pf. 1.75p
Lamont Hldgs. 6% Cm. Pf. 1.05p
Do. 5.6% 2nd Cm. Pf. 2.8p
Do. 10% 3rd Cm. Pf. 5p
Lewis (John) Props. 8¾% Mtg. Db. 1993/98 4⅜pc.
Lincoln National 68cts.
Lloyds Chemists 7.5p Cm. Rd. Cv. Ptg. Pf. 3.75p
M & G Extra Yield Fd. Inc. Units 7.5p
Marks & Spencer 10% Cm. Pf. 3.5p
Marshalls 10% Cm. Pf. 5p
Merchants Tst. 4% Perp. Db. 2pc.
Mid-Southern Water 10% Rd. Db. 1995/98 5pc.
Montreal (City of) 3% Perm. Db. 3pc.
NYNEX 114cts.
Nicor Inc. 56cts.
Norwich Corp. 3% Rd. 1½pc.
Nottingham Corp. 3% (Irrd.) 1½pc.
Novo Nordisk B DKr4
Pacific Telesis 53cts.
Parkland Textile 3.15% Cm. Pf. 1.575p
Pentos 4½% Cm. Pf. 1.575p
Ransomes 4.1p
Reading Corp. 3½% 1978 (Or after) 3½pc.
Reuters 10.8p
Sanderson Murray & Elder 10p
Scottish Inv. Tst. 3.85% Cm. Pf. 1.925p
Do. 3.5% Cm. Pf. 1.75p
Do. 4.55% Cm. A Pf. 2.275p
Sheafbank Property Tst. 5.25% Cm. Pf. 2.625p
Do. 6% Cm. Cv. Pf. 3p
Southwestern Bell 71cts.
Torchmark Corp. 35cts.
Treasury 6¾% Ln. 1995/98 3⅜pc.
US West 52cts.
Union Intl. 7% Cm. Pf. 2.45p
Varity 7½% Db. 1987/92 3¾pc.
Watney, Mann & Truman 7¼% Rd. Db. 1987/92 3⅝pc.
Whitbread 4½% 1st Cm. Pf. 1.575p
Do. 7% 3rd Cm. Pf. 2.45p
Do. 6% 3rd Cm. Pf. 2.1p
Young & Co's Brew. 7¼% 1st Mtg. Db. 1986/91 3⅝pc.

■ THURSDAY MAY 2
Anglo American Ind 5.625% Cm Pf. 6.625cts.
El du Pont de Nemours 13.75% Ser. C 2/5/91 6⅞pc.
European Assets Tst. (Reg) DFL0.15
Isotron 1.25p
Johnson Cleaners 18.7p
LASMO 4.75p
Law Debenture 10.25p
Mediterranean Fd. $1
Do. IDR (Br) $1
Pacific Dunlop 10.5cts.
Paterson Zochonis 2.15p
Do. A (N/Vtg.) 2.15p
Plaxton 1.5p
TLS Range 0.8p
Vardy (Reg) 1.2p

■ FRIDAY MAY 3
Allied Leisure 1.5p
Ansbacher (Henry) 1.5p
Automagic 0.5p
Blagden Inds. 5p
Clyde Petroleum 0.75p
Delta 10¾% Db. 1995/99 5⅜pc.
Eleco 2.3p
Expamet Intl. 6.2p
Fisher (James) 3.5p
Kalon 1p
MAI 1.4p
Minorco 17cts.
Paribas French Inv. Tst. 1.2p
Radius 1.8p
Tay Homes 1.2p
Templeton Galbraith 10cts.
Treasury 15¼% Ln. 1996 7⅝pc.
USDC Inv. Tst. 3.25p
Unidare 10.3pIr
Vektra Corp. 8cts.

■ SUNDAY MAY 5
Credit National 13½% Gtd. Nts. 1993 (Br) 6¾pc.
Do. (Reg) 6¾pc.

PARLIAMENTARY DIARY

■ TODAY
Commons: School Teachers Pay and Conditions (No 2) Bill, second reading. Motions dealing with Education (National Curriculum) Orders.
Lords: Water (Consolidation) Bills, second reading. Child Support Bill, report. Wildlife and Countryside (Amendment) Bill, second reading. Gaming (Bingo) Bill, committee.
Select Committee: Public Accounts – subject, Computer Security. Witness: Mr N. Monck, HM Treasury (Room 15, 4.30pm).

■ TOMORROW
Commons: Finance Bill, second reading. Debate on Estimates Relating to the Community Charge.
Lords: War Crimes Bill, second reading.
Select committee: Members' Interests - subject, Registration and Declarations. Witnesses: Adam Raphael; Andrew Roth; Sheila Gunn (Room 15, 5.15pm).
House of Commons Services Committee: New Building Sub Committee (Room 1, 10.30am).

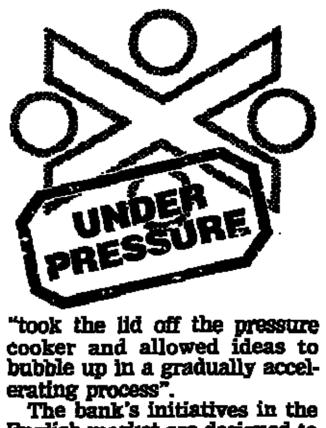
■ WEDNESDAY
Commons: Debate on the First Report of the Select Committee on Broadcasting. Debate on the work of the Parliamentary Commissioner for Administration and the Health Service Commissioner.
Lords: Debate on Education and Vocational Training for Teachers. Question to Government on the Public Record Office.
Select Committees: Welsh Affairs – subject, Elective Surgery. Witnesses: Prof Alan Williams, University of York; Dr Raanan Gillon, Imperial College; John Yates and Mike Davidge, University of Birmingham; John Cullis, University of Bath (Room 18, 10.15am).
Environment – subject, EC Draft Directive on Landfill of Waste. Witnesses: Association of British Insurers (Room 21, 10.30am).
Foreign Affairs – Subject, Events in the Middle East. Witness: Israeli Ambassador (Room 15, 10.30am).
Agriculture – subject, Commodity Markets in the 1990s: Cereals. Witnesses: UK Farmers' Union (Room 19, 10.45am).
Trade and Industry – Subject, Takeovers and Mergers. Witnesses: Office of Fair Trading (Room 17, 10.45am).
Energy – subject, Clean Coal Technology and the Coal Market after 1993. Witnesses: British Association of Colliery Managements; Union of Democratic Mineworkers, East Midlands Electricity (Room 8, 11am).
Employment – subject, Vocational Training. Witnesses: Business and Technician Education Council (Room 18, 4.15 pm).
Health – subject, Organisation of Health Department and the Health and Social Service Department, Northern Ireland. Witnesses: Department of Health Representatives (Room 21, 4.15pm).
Public Accounts – subject, Value for Money in the Police. Witnesses: Sir Clive Whitmore, Home Office; Sir John Woodcock, HM Chief Inspector of Constabulary (Room 15, 4.15pm).
Committee on Private Bill: London Underground Bill (Room 8, 10.30am).

■ THURSDAY
Commons: Debate on the Royal Air Force.
Lords: Road Traffic Bill, committee. Welfare of Animals and Slaughter Bill, second reading.

■ FRIDAY
Commons: Private Members' Bills.

The Scottish bank with an English money-box

James Buxton continues the series on UK clearers by assessing the Bank of Scotland, one of Britain's more innovative institutions



When Bank of Scotland produces its annual results on Wednesday they will show its first fall in pre-tax profits since the early 1980s. Higher provisions for bad debts means that group profits for the year to February are likely to fall short of last year's record £194m.

Yet despite this, the bank's reputation as one of the most successful clearing banks in Britain is unlikely to be tarnished. Over the past decade, it has devised a strategy which has resulted in its share of the UK banking market roughly doubling (to about five per cent), with half its business now coming from south of the border, despite having only a skeleton branch network outside Scotland.

That is backed by a management system which has so far enabled it to avoid many mistakes, to keep costs low and consistently to innovate. Most of its growth has been organic.

The transformation of what at the end of the 1970s was a competent but hidebound organisation owes much to Bruce Pattullo; now deputy governor and chief executive, he took over running the bank, which he had joined straight from Oxford, in 1979 when he was 41.

When he arrived at The Mound, the bank's headquarters in Edinburgh, no one seemed to be responsible for the direction the bank was taking. "The management assumed that the non-executive directors were worrying about future strategy and left it to them," he says. "In fact the directors were busy running their own businesses and assumed that the management was thinking about the future. Despite good intentions there was a void."

Pattullo, a man whose liveliness belies his somewhat stern appearance, created a management board consisting of the clearing bank's full-time senior executives and told them that where the bank was in five years' time was up to them. The main board of directors became entirely non-executive and its role became that of vetting the decisions of the management board, with Pattullo the only person on both.

"The idea was to give the managers responsibility. They wanted change and were delighted to rise to the challenge," he says.

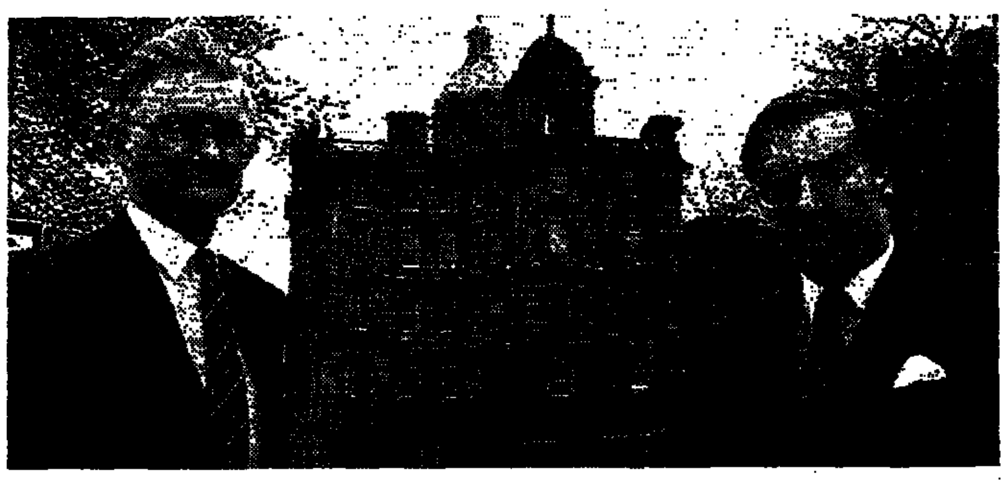
Responsibility then began to cascade down the managerial ranks. According to Peter Burt, 47, who took over as chief general manager in 1988, Pattullo "took the lid off the pressure cooker and allowed ideas to bubble up in a gradually accelerating process".

The bank's initiatives in the English market are designed to reduce dependence on the sluggish Scottish economy, and to offset and even exploit the fact that it does not have a full branch network in England. "If we'd inherited a network like Royal Bank of Scotland we'd have been delighted," says Pattullo. "But it was too late to buy or to build. Necessity is the mother of invention." The bank still has only about 15 branches in England outside London compared with 487 in Scotland.

The initial big step was the 1983 launch of the first money market cheque account offered by a clearing bank. It was an immediate success in the south-east of England.

That was followed by:

- Joint ventures with more than 30 organisations such as the Halifax Building Society and the Automobile Association, with the bank normally contributing financial products and processing, and the partner offering its customer base.
- HOBS, the bank's Home and Office Banking System, which was the first in the UK whereby a customer can operate his account remotely. The majority of HOBS customers are companies which had no previous connection with Bank of Scotland.
- Creating a card-processing centre at Dunfermline, Fife, which processes the Bank's own Visa and Mastercards as well as those issued by institutions such as National Provincial building society and, in a joint venture, Halifax Building Society. It now operates 1.5m cards.
- Invention of TAPS, the bank's transcontinental automated payment service, which links countries' automated payments systems for low cost transmission of very large numbers of small payments. The bank says it was a first and is still unique in dealing with payments to several countries simultaneously.
- Development of a substantial English business in mortgages and targeted loans fed to it by intermediaries and operated through the bank's computerised central banking services in Edinburgh. It says it was the first UK bank to create this kind of centre for processing remote transactions.


Bruce Pattullo (left) and Peter Burt: allowing ideas to bubble up in a gradual process

With its small English branch network the bank has a low cost-base. Its cost/income ratio fell three points in 1989/90 to 53 per cent as it pushed more business through its existing structure. That compared with ratios for London-based clearers of 64 per cent in the case of Barclays and 76 per cent for Midland.

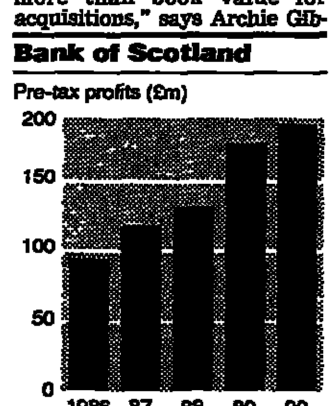
Bank of Scotland did not make some of the mistakes committed by other banks. Its first criterion for new ventures is never to do anything that might imperil the independence of the bank (reinforced by a 33 per cent stake held by its Edinburgh neighbour, Standard Life), which automatically makes it cautious.

Thus it did not buy into capital market operations at the time of Big Bang (though it was anyway hardly big enough to have made much impact). It contemplated and rejected buying a chain of estate agents before that became fashionable. It has a low exposure to less developed country debt; it did not buy a US bank, though, in this case, it tried but was outbid.

"We've elected not to pay more than book value for acquisitions," says Archie Gibson, general manager for central banking services. "You'll be familiar with the expression 'short arms and deep pockets'."

Bank of Scotland

Pre-tax profits (£m)



Source: Datastream

Although Bank of Scotland has a joint venture in a new bank in Greece, a joint venture in credit card-processing with Quelle, the German mail order company, and a stake in Italian credit card processing as well as a venture in New Zealand, the UK is the main focus of attention. It believes it understands UK banking best. Says Burt: "I believe we are still small enough to double our market share in the UK."

Already relatively small, Bank of Scotland believes it benefits from devolved authority and short lines of communication. Gavin Masterton, general manager since 1986 for UK banking east (covering the east of Scotland), says: "Cascading authority goes down as far as there's a willingness to accept it." Every branch manager, he says, should feel that he "owns" his branch. Within branches junior managers should feel they "own", say, their own operations.

In a phrase which often comes up in conversations in the bank, he says, "the triangle of authority here is flatter than in other banks". The district manager in, say, Fife, is "the man of business there who doesn't need to refer many decisions to Edinburgh". He says he regards both his regional managers and his colleagues on the management board as his partners.

Masterton says the bank is continually asking "is your journey really necessary?" to cut out redundant work. Staff put up ideas and a formal staff suggestion scheme produces results, such as a more economical way of storing a customer's standing orders, and ditching a rule requiring mortgage arrears to be reported to the district manager.

In February, as the effects of recession in England on the bank's lending book deepened, the bank told its staff that there would have to be significant belt-tightening, but assured them that there would be no compulsory redundancies, though some of the 12,200 jobs would go through natural wastage. "If a person knows he isn't going to be sacked it becomes a lot easier for him to agree with you that his current job may not be necessary and do another one," says Burt.

Pattullo believes, he says, in a "bottom up" approach to management, preferring to wait for ideas to germinate down the line and be pushed up to the management board for approval, rather than to dictate from above.

"A chief executive who is over-anxious to stamp his personality on a bank has a high risk of failing," he says. "Such an executive might say: I want to create an operation in every country in Europe. But if the people down the line don't really want to do it, if the chemistry isn't right, it won't succeed."

Some people who know the bank well suggest that its wish to keep its distinctiveness as a low-cost institution, its typically Scottish refusal to pay for goodwill and its dedication to increasing the wealth of its shareholders limit its growth.

But the bank's record of expansion and new ventures contradicts that; the need for consensus in the management board, however, restrains individual egos and may avert rash moves. Pattullo says he exercises direction with a light hand, and the consensus has very occasionally gone against him. But senior managers believe his leadership and consistency of approach are the key to the the bank's success, not least in engendering high morale. Burt says: "With high morale you achieve miracles."

The first article in this series, on National Westminster, was published on April 19.

Business courses

Project management: the critical skills and techniques. May 29-31, London. Fee: £755 + VAT. Further enquiries: Ann Sinclair, Infomatics Resource Centre, 2 The Chapel, Royal Victoria Patriotic Building, Fitzhugh Grove, London SW18 3SX. Tel: 081 871 2546.

Management skills for women. July 1-3, London. Fee: £625 + VAT. Further enquiries: Nick Betts, Frost & Sullivan, 4 Grosvenor Gardens, London SW1W 0DH. Tel: 071 730 3438. Fax: 071-730 3343.

Joint venturing: strategies for partnerships in a global marketplace. July 8-9, London. Fee: £600 + VAT. Further enquiries: Nick Betts, Frost & Sullivan, 4 Grosvenor Gardens, London SW1W 0DH. Tel: 071-730 3438. Fax: 071-730 3343.

Financing growth and expansion in the 1990s. May 21, London. Fee: £345 + VAT. Further enquiries: Conference Organiser, Business Research International, IBC House, Canada Road, Byfleet, Surrey KT14 7JL. Tel: 071-637 4383. Fax: 071-631 3214.

Effective banking relationships. June 20, London. Fee: £431.25. Further enquiries: IIR, 28th Floor, Centre Point, 103 New Oxford Street, London WC1A 1DD. Tel: 071-412 0141. Fax: 071-412 0145.

Manpower planning for organisations in developing countries. July 1 - August 23. Brighton. Fee: £6,400 + VAT. Further enquiries: Meg Reed, Institue of Manpower Studies, Mantell Building, University of Sussex, Falmer, Brighton, Sussex BN1 9RF. Tel: (0273) 686751. Fax: (0273) 690430.

Writing effective sales proposals. May 14, London. Fee:£345 + VAT. Further enquiries: Infomatics Resource Centre, 2 The Chapel, Royal Victoria Patriotic Building, Fitzhugh Grove, London SW18 3SX. Tel: 081-871 2546. Fax: 081-871 3866.

Research and development contracting symposium. May 30, Bedford. Fee: £110 + VAT. Further enquiries: Leslie Roff, The Short Course Officer, Cranfield Institute of Technology, Cranfield, Bedford MK43 0AL.

Management abstracts

Career gridlock: baby boomers hit the wall. *DT Hall & J Richter in Academy of Management Executive (US), Aug 90 (16 pages)*

Points out that for people born between 1946 and 1964 the number of management jobs available is less than the demand and shrinking.

This can lead to problems of career plateauing for those with traditional ambition; asserts, however, that there are infinite ways of achieving 'psychological success'; expands on this idea by profiling the baby boomers' value systems, eg they have a need for autonomy and to question authority with a greater concern for a work/family balance.

Suggests guidelines for more effective utilisation of baby-boom potential, such as replacing the promotion culture with a psychological success culture.

Human resources strategy. *RS Schuler & JW Walker in Organizational Dynamics (US), Summer 90. 15 pages.*

Asserts that "just as organisations can engage in short-term as well as long-term planning of business strategies, HR planning can be done with a short-term and a long-term focus"; then decides to use the term "HR strategy" to refer to the short-term thrust.

This is said to necessitate greater emphasis on HR concerns, concentration on key issues, the interpretation of just about every aspect of business in HR terms, and the involvement of the line in HR concerns.

Relates several cases in which action on the personnel front has shown noteworthy results: the Weyerhaeuser Company's Bayer (ball bearings) plant where crash courses in (product-related) English increased the utility of ethnic labour; Grand Union (food retail) where HR measures brought about better customer service; and Swiss Bank Corporation North America where the marketing people needed training in communications with non-marketing staff.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £5.75 each (including VAT and p+p; cash with order) from Anbar, 62 Toller Lane, Bradford, West Yorkshire BD8 9BY.

ARTS

Tania Maria

ROYAL FESTIVAL HALL

In her small black sunglasses, short black dress and stilettos, a headset mike fitted around the razor cheekbones, Tania Maria totters on to the stage like a formidable adversary for Mad Max's Tina Turner. She looks as though she means business.

The Brazilian singer/pianist's business is hot Latin fusion and on Thursday it came fast and tight as ever. It was the last night of a European tour and, according to the salsasavants, she is at her at "pre-New York best". This presumably means that the melodies are uncomplicated and the rhythm, borne by congas, drums and bass, uncompromising. The carnival fireworks are in the voice and the streaming wordless vocals and scatting. Or even whistling (she trilled a complicated 10-minute salsa version of "Do you think I'm sexy?").

Whistling jazz fusion and getting away with it is one thing: any singer who can make a Royal Festival Hall audience dance has spirit. But the steaming mix of rock and Latin jazz, cranked up by horn and trumpet, was completely irresistible.

The Maria method can be applied to any number, "Ce c'est bon", a carnival stomper fitted in perfectly with an unlikely, but sizzling version of the Stones' "Satisfaction", carried off bolero style. "Hup!" the changes are signalled as she comes crashing down the keyboard, cheeks sucked into an impossible pout and out pour the words. She crouches at the keyboards (one is electric) and telegraphs the cues to her slavish accompenists in between batting the lyric around with her hands as it tumbles forth. Block chords are plonked in, when she can restrain her hands, to keep the careering voice on course.

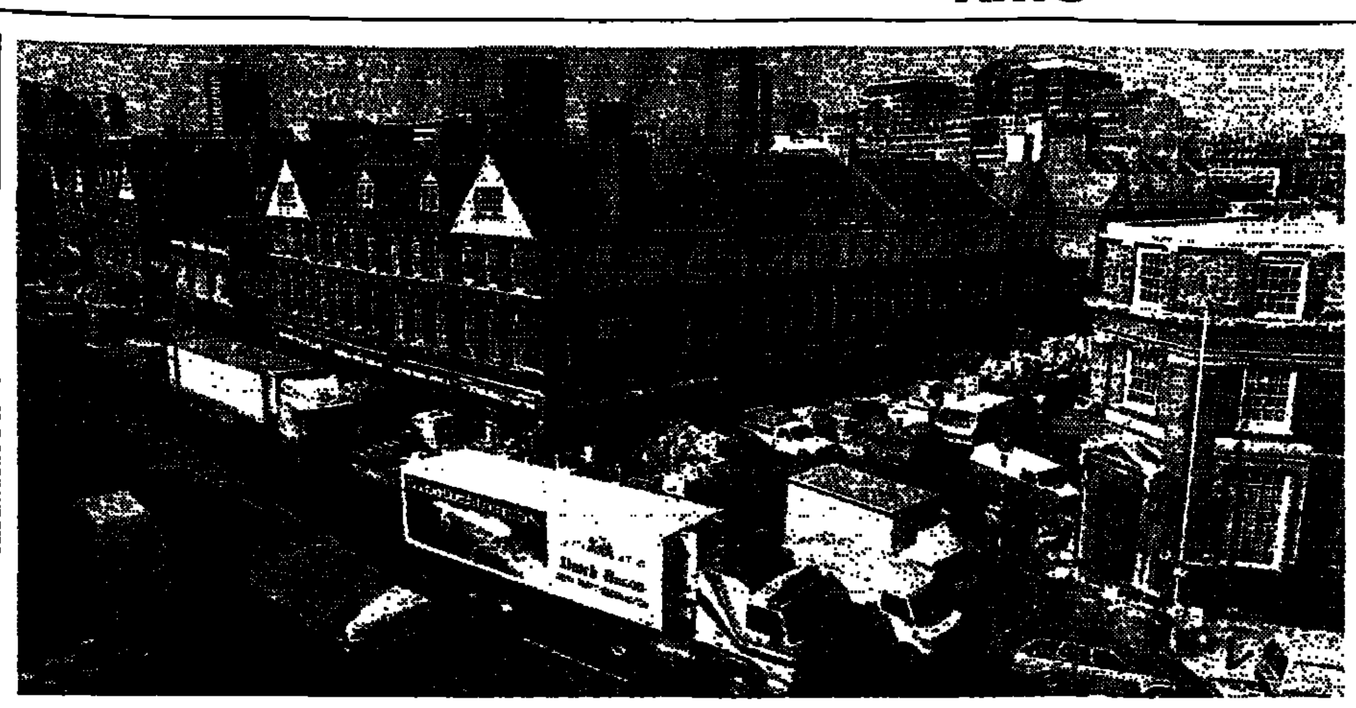
It did the trick. By the end of the set more than a few of us were doing the merengue, elbows akimbo, down the gangway to meet the po-faced ushers in front of the stage. "I'm very happy – a little homesick – but I think we done a very good concert," Tania concluded modestly as she left an RFH crying out for more.

★

Three hours earlier singer Cleveland Watkiss was taking the stage in support of Tania Maria. Showcasing a splendid new album, *Blessing in disguise* (Polydor), the young black Londoner has a style and voice which could be mass marketed to a wider than jazz audience. That seems to be the idea, anyhow. But a fine Guildhall-trained voice is no guarantee of commercial success.

My feeling is that he is too hard to pin down – and too crafty with the grooves – to appeal to non-jazzers. Like a junior jazz version of Taj Mahal, he has absorbed almost the entire range of black music from calypso and reggae ("Bagah-Orange") to George Bensonesque schmooze ("Memories"). It is clever stuff alright and the six piece band behind him, led by guitarist Tony Remy, are spot on. But it is worth noting that the biggest cheers – led by his mother – were for a straight Motown soul sounding ballad which is pure Marvin Gaye, "Be Thankful for what you got".

Garry Booth



Alan Harper

Sensitive Spitalfields: the fruit and vegetable market moves in May and decisions will have to be made

ARCHITECTURE

Complementary to historic sites

Cambridge University's announcement last week that it is to go ahead with its development plans for the new Judge Institute of Management Studies was accompanied by the naming of the architect for an historic site in the centre of Cambridge. John Outram Associates have been selected to design a major new building that has to incorporate elements of the listed Old Addenbrookes Hospital currently occupying the site between Trumpington Street and Tennis Court Road. Both the major donors, Mr and Mrs Paul Judge and Mr Simon Sainsbury as well as the university were involved in the selection procedures to find an architect. They have made a brave choice because John Outram is an original, hard to classify and yet highly appropriate because he understands and *responds to the historical density of this* site.

But Outram is not in any way an historical pasticheur. His particular sort of architecture achieves what many modern architects had thought to be impossible. His buildings are both technically innovative and ornamental. He does not, like some architects, make the innovations of technology themselves into an artistic language. His own architectural language is strong enough to encompass the existence of the old hospital and to add to it in a manner that will be complementary without being imitative.

The Old Addenbrookes Hospital goes back to the 1740s but the most visible part from Trumpington Street is the facade of *the 1860s, designed by Matthew Digby* Wyatt. It was described by Pevsner in his "Buildings of England" as "a depressing example of its date, with many rather dry, thin motifs, Italian as well as Tudor, assembled without any tension or accentation." It has more friends today and its curious, round arched North Lombardic character is not without possibilities. As Outram says, the facade has lost little of its relevance to the problem of urban architecture and seems less of an artifice today than it probably was at the time of its original design.

His solution to the problem of inserting a new and innovative centre for management studies on to this site is to create three buildings which will all be linked by a 16-metre high animated internal street where students and faculty will meet and mingle. There will undoubtedly be considerable architectural drama that will give the new faculty a colourful profile in the university.

John Outram's name is strongly linked to an eclectic range of new buildings. His country house in Sussex with its five typologies for the column and richly colourful palette of materials is undoubtedly one of the most interesting country houses built in Britain this century. At some remove, but just as interesting, is the pumping station on the Isle of Dogs directly commissioned by the London Docklands Development Corporation. The earlier headquarters building for Harp *Heating combined service columns with a* considerable wit concerning the iconography of engineering.

There are two as yet unbuilt schemes; the Milton Keynes based headquarters for the Consumer Association *(Which?)* and the large new office development for the Rosehaugh-Stanhope Holborn Viaduct/Blackfriars Station site. The Outram element of this scheme is at the Blackfriars end of the site and is a remarkable essay in prefabricated brick and concrete technology. This building – by far the most outstanding of the whole development – is at present on hold awaiting the upturn in the City property market. It will be a very positive addition to the City.

Outram has been selected for the British *Pavilion in this year's Venice Architec*tural Biennale.

★

Architects were named for another important project last week: the sensitive and important Spitalfields Market site. The proposed redevelopment of this is a long saga. But minds will have to be focused in May when the fruit and vegetable market finally moves out to its new home in east London at Temple Mills. The Spitalfields Development Group announced their selection of the international firm of Benjamin Thompson and Associates as master planners for the whole 12-acre site of the market.

Ben Thompson and his wife Jane pioneered, with the Rouse Company in the US, the rescue of redundant urban market sites or collapsed areas of major cities. They have made an enormously successful impact – particularly at Boston's Faneuil Hall and Quincy Market, at New York City's South Street Seaport development and at the Bayside Marketplace, Baltimore. I recently admired their elegant rescue operation at Union Station, Washington D.C. Are they the right people to rescue this vital part of London that has been fought over by conservationists for years and lies on the brink of some of the most socially deprived parts of the capital? Spitalfields is important for the City too: it is a close neighbour to the monumental *Broadgate development as well as the* Georgian streets of the former Huguenot quarter around Hawksmoor's Christ Church.

The Spitalfields Development Group have another scheme on the table at the moment which is due to be examined at a public inquiry in October. This scheme, by Swanke Hayden Connell, should surely be dropped at once and a groundswell of support ensured for the ideas of the Thompsons. I was shown their very early ideas for the site, but I liked their informality and I agreed with the wish to make the whole place "walking scale". It is surely right to have a wide selection of architects working on a whole range of buildings under the careful direction of a master *planner to ensure a sense of harmony* without uniformity. The track record of Ben Thompson Associates – currently also working in Dublin and Cardiff – shows that they have often achieved the impossible and made enjoyable places flower in the urban deserts. As long as they remember that Spitalfields has to be the key to the regeneration of east London as well as a link to the City, I feel that they have the sensitivity to rescue Spitalfields from squalor. They must not be hedged about with any more bureaucratic delay.

Colin Amery

The Stick Wife

THE GATE THEATRE

The staging is terrific; the lighting is pretty good, too. And, of course, this being the Gate Theatre, the acting and direction are superb. There are some doubts, however, about the play.

The Stick Wife by the American playwright Darrah Cloud is set in Birmingham, Alabama in 1963, a pregnant year in US politics. The stage action takes place outside a suburban white *lower middle class house*, where the washing is hung out to dry in the days before drying machines took over. Since most of the washing consists of white sheets, the message is clear enough from the start. "I'd never realised how much white shows up the dirt," says one of the female characters later on. There are three wives and three husbands. The men are involved in the bombing of a black church which results in the death of four children. The women are in varying degrees and at various stages opposed to the violence, which the men call war. One of the *wives informs the federal* authorities that the husbands are members of the Ku Klux Klan. This is a true, or at least true-ish, story, documented by the New York Times.

In the end, however, the women stick to their men. The crowning blow, as you might have guessed from the date, is the assassination of President Kennedy. "Oh my Lord," the women wail in unison, "who's going to take care of us now?" No point in shooting their husbands, as they had once seemed prepared to do, if there has been a collapse of authority in the White House. They *may not have stuck to their* guns anyway.

There are some good moments: for example, in reference to war – "Where's Vietnam?" "Africa." And Marty Cruickshank, as the leading wife, comes dramatically close to pulling the trigger. One half-expected a section of the audience to rise up in protest that she does not. Ms Cruickshank is marvellous in her intensity, as indeed is the whole production – down to the sound of the crickets – by Nancy Diuguid. Written 20 years ago, this would have been a stunning piece. Now it seems a bit dated: *the women's movement* looking for roots.

Malcolm Rutherford

Carmen

COVENT GARDEN

From the morass of mediocrity which is the new Royal Opera *Carmen* (sponsors: Daiwa Europe Ltd and the Linbury Trust), a handful of rewarding performers stand apart. There is, for example, Leontina Vaduva: her Micaela, played as a milksop entirely lacking in country-girl determination, delivers nonetheless an exquisite third-act aria – the voice of the young Romanian soprano is not yet in full bloom, but the quality is lustrously fresh.

There is also Gino Quilico, a bit slow on his pins for a star bullfighter, but a stylish baritone with vocal elegance and verbal wit to his credit – and native French (or rather, Canadian-French) as well, not something heard at Covent Garden very often. Christopher Booth-Jones (Morales) cuts a dash; and though often the wretchedly bad blocking of the staging contrives to deny us clear sight of the attractive persons of Judith Howarth (Frasquita) and Jean Rigby (Mercedes), at least we are not denied sound of their attractive voices.

Best of all – and principal saving grace of an otherwise dispiriting evening – is the José of Luis Lima. He is, as we recall from his Carlos and Nemorino on the same stage, a fine, intensely physical actor: small, trim, darkly handsome, with liquidly expressive eyes and a way of being stirred to love or violence which combines Latin volatility and acute psychological understanding (and vital, poetically accented use of words, spoken as well as sung).

That the opera is José's tragedy was at Covent Garden on Friday clearer than ever; for on a stage clogged and cluttered by a particularly debased form of pictorial naturalism, with *bits and pieces of characterisa*tion unlinked by any discernible dramatic thread, Lima provides the single developing line of dramatic coherence and consistency.

In the past he has tended to force his lean, dusky-toned tenor at climaxes, as much (one suspects) through dramatic enthusiasm as anything else. Here, some unwanted bursts of final-duet sobs notwithstanding, he sounds impressively apt to the music, neither too heavy nor too light; and while a conductor less limited in his command of French-*operatic style than Zubin* Mehta would no doubt encourage Lima to mould the melodies with even greater suppleness, this is in sum one of the most moving Josés of recent times.

Mehta is a conductor with a gift for waking up an orchestra (and, evidently, a chorus – their form was above the recent house average). He approaches the work with energy, and a certain feeling for the beauty of detail in Bizet's scoring. What he entirely lacks is rhythmic elasticity – the Spanish metrical inflections receiving either a drum-banging underlining or a hot-handed caress – and, more seriously, any sense of unfolding dramatic impetus.

Friday's was a *Carmen* experience of stop-starts. In a theatre larger than that for which it was written, the opera needs not flashy moments, but a clear grasp of how to keep the work moving and, above all, certainty of taste. But since the conductor insists on performing the work in the roundly discredited edition by Fritz Oeser, plumped full of those obviously ineffective short passages or repetitions which Bizet himself cut before opening night, certainty of taste is not Mehta's calling card. Can no-one at Covent Garden hear how completely those added bits of Oeserie lame the close of the "Chanson bohème", for instance, or the final duet? Does no-one care?

The blend of Mehta's stylelessness and Nuria Espert's limp production (in the tall, Goya-influenced but plasticky-looking and space-cramping single set of Gerardo Vera) is a lethal one. There are few things in opera more numbing than the meaningless operatic naturalism on offer here. The production's flubbed details and attempts at novelty are countless – the Sevillian working people doing their little cameos in Act 1, the flamenco dancer spoiling the quiet opening music of Act 2, an utterly incompetent fight in Act 3, the milling crowds plus two horses in Act 4, and so on. How so distinguished a woman of the Spanish theatre can have failed in this particular way with this particular opera is a sad mystery.

Having Maria Ewing in the title role was obviously no help. Reports tell us that her attendance at rehearsals was slight; but even without that information we could probably guess as much. For this is Carmen in an hermetically sealed bubble, giving us Her Performance, unresponsive to others on stage; even her singing, with its fascinating timbre (albeit shrill on high notes) and phrase-shapes, sounds self-directed.

Miss Ewing can be the most mesmerising of stage artists. Here, her presence is negative, a final drain on the vitality of the character and the opera. Indeed, one must accord the production a last benefit of the doubt: perhaps a different Carmen will make it all seem different.

Max Loppert

Maria Ewing and Luis Lima

Kathleen Ferrier Scholarship

WIGMORE HALL

It is hard to see why a recession should cause a drop in the output of good young singers. Voices are not acquired on credit and one would have thought there should be a continuous supply of new talent, if the teachers and interest in the art form are still there, as there is every reason to believe they are.

The Kathleen Ferrier Memorial Scholarship, awarded since 1956, has a history of producing winners who have gone on to successful careers. This year, indeed, it may do the same again, as the prizes went to very worthy competitors. But there was not the same depth of talent that has made it difficult in the past to decide the order of merit between a large field of high-quality entrants.

On Friday, at the finals held at the Wigmore Hall, it seemed a fairly straightforward choice between two or three singers. The jury selected the soprano Mary Plazas, not necessarily the most exciting of them, which suggests that they were looking for a sense of style as well as purely vocal accomplishment. Her Debussy and Bellini were equally stylish, quietly expressive, and she sang as though she loved the music, which is always a help.

The runner-up was the youngest competitor, 22-year-old mezzo Jane Irwin, and third prize went to the soprano Gail Pearson. I would have put them round the other way or even given first place to Miss Pearson. In a competition that had been singularly lacking in zest, she really made the audience sit up with her bright and confident singing of Gounod's *Roméo et Juliette*, while always giving the impression that she had plenty of voice to spare.

Still, Jane Irwin's programme was well presented and there was every sign in her performances that voice and personality are developing in equal measure, which is a valuable attribute in one so young.

In the closing address on behalf of the jury Janet Baker summed up three failings that it was felt had been prevalent during the competition: poor physical presentation; poor languages; and a poor choice of programmes. At many other Ferrier finals this would have seemed a querulous attitude with which to end. But not at this one. For all three faults had been disturbingly in evidence in the course of this last evening.

Richard Fairman

INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

BERLIN

MUSIC AND DANCE

Komische Oper 19.00 Tom Schilling's production of Cinderella, music by Prokofiev. Tomorrow: Die schweigsame Frau. No performances on Wed, Thurs and Fri (2292 555)

Staatsoper unter den Linden 19.30 Mozart's Der Schauspieldirektor. Tomorrow: Madama Butterfly. Wed: Les contes d'Hoffmann. Thurs: Der fliegende Holländer. Sat: Cosi fan tutte. Sun: Fidelio (2004 762)

Deutsche Oper *19.30 Heinrich* Hollreiser conducts Ponnelle production of Fidelio with Sabine Hass as Leonore. Tomorrow: Die Zauberflöte. Wed: Lohengrin. Fri: Rigoletto. Sun: Gwyneth Jones sings Elektra (3410 249)

Philharmonie Kammermusiksaal 20.00 Mischa Maisky plays cello sonatas by Debussy, Brahms and others. Tomorrow: piano recital by Alan Marks. Sat and Sun: Christopher Hogwood conducts Berlin Philharmonic (2614 383)

THEATRE

This week's repertory at the Berliner Ensemble includes The Caucasian Chalk Circle, The Threepenny Opera, The Good Person of Sezchuan and Heiner Muller's Germania Tod in Berlin (2827 712); at the Deutsches Theater there is a new production of Peer Gynt (2871 225), and the Volksbühne has The Comedy of Errors (2082 748). In the western part of the city, the Schaubuhne is presenting Kleist's Amphitryon today and tomorrow, and Luc Bondy's production of The Winter's Tale on Sat and Sun (890023)

■ LONDON

MUSIC

Covent Garden 19.00 Zubin Mehta conducts Nuria Espert's new production of Carmen with Maria Ewing in title role, also Fri. Tomorrow and Wed: Royal Ballet triple bill. Thurs and Sat: David Bintley's new full-evening ballet Cyrano (240 1066)

Coliseum 19.30 David Atherton conducts Tim Albery's new production of Peter Grimes, with Philip Langridge in title role, also Thurs. Tomorrow and Fri: Don Giovanni. Wed and Sat: Cunning Little Vixen (836 3161)

Royal Festival Hall 19.30 Vladimir Fedoseyev conducts Moscow Radio Symphony Orchestra in Tchaikovsky's Fifth Symphony, with Nikolai Demidenko soloist in Rachmaninov's Second Piano Concerto. Tomorrow's programme includes Gubaidulina's Offertorium. Wed: Yuri Simonov conducts Philharmonia. Thurs: Kent Nagano conducts LPO. (928 8800)

Queen Elizabeth Hall 19.45 Marcus Roberts, American jazz pianist. Tomorrow: Nicholas Kraemer conducts Bach. Thurs: John Eliot Gardiner conducts Gluck's Orfeo (928 8800)

Barbican *19.45 Alexander* Schneider conducts Chamber Orchestra of Europe in music by Mozart and Hugo Wolf. Wed: Gunther Herbig conducts Toronto Symphony Orchestra. Sat: recital by Kyung-Wha Chung and Stephen Bishop-Kovacevich. Sun: Igor Oistrakh's 60th birthday concert (638 8891)

THEATRE

The most popular West End shows are Carmen Jones, Oscar Hammerstein's musical update of Bizet's opera directed by Simon Callow (Old Vic), and Miss Saigon (Drury Lane). Gerard Murphy's RSC production of Christopher Marlowe's Edward II opens tonight at The Pit. This week's other shows include Steve Berkoff's adaptation of Kafka's The Trial, with a cast led by Antony Sher (National), and White Chameleon, Christopher Hampton's semi-fictional memory play about a childhood in Egypt (National). Later in the week, the RSC brings King Lear to the Barbican with John Wood in the title role, and Judi Dench stars in Sean O'Casey's The Plough and The Stars at the Young Vic. Phone Theatreline: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 4309 62

■ MILAN

Teatro alla Scala 20.00 Myung-Whun Chung conducts the Scala orchestra in a concert of music by Beethoven and Musorgsky. Thurs, Fri and Sun: Adriana Lecouvreur (7200 3744)

■ MUNICH

Staatsoper 19.30 Roberto Abbado *conducts Giancarlo del Monaco's* production of Manon Lescaut, with a cast led by Anna Tomowa-Sintow and Peter Dvorsky, also Thurs and Sun. Tomorrow: Tchaikovsky's The Maid of Orleans. Sat: L'italiana in Algeri. Tomorrow in Cuvillies-Theater: Munich premiere of Mozart's Apollo et Hyazinthus and Il sogno di Scipione, also Thurs and Sat (221316)

Philharmonie 19.30 Sergiu Celibidache conducts Munich Philharmonic Orchestra in Haydn's Symphony No 103 and Beethoven's Violin Concerto, with Oleg Kagan, also tomorrow. Sat and Sun: Othmar Maga conducts Brahms, Veerhoff and Reger (48098 614)

■ GENEVA

Grand Théâtre 20.00 Recital by Marilyn Horne accompanied by Daniel Beckwith. Tomorrow, Thurs and Fri: Bartok and Mozart cycle with Alban Berg Quartet. Wed and Sat: Armin Jordan conducts Don Giovanni, with Thomas Hampson in title role and Willard White as Leporello (212311)

■ NEW YORK

MUSIC

This week's programme is dominated by the Carnegie Hall Centennial Festival. Tonight at 20.00 Yuri Temirkanov conducts Philadelphia Orchestra in Borodin's overture to Prince Igor, Sibelius' Second Symphony and Rachmaninov's Second Piano Concerto, with Andre Watts. Wed: Zubin Mehta conducts New York Philharmonic Orchestra in Mahler's First Symphony and Tchaikovsky's First Piano Concerto, with Van *Cliburn. Thurs: Christoph Dohnanyi* conducts Cleveland Orchestra in world premiere of Schnittke's Concerto Grosso No 5. Fri: James Levine conducts Beethoven, Wagner and Strauss, with Jessye Norman. Sat: Emanuel Ax, Isaac Stern and Yo-Yo Ma play piano trios. Sun: Robert Shaw conducts centennial choralfest, followed by a two-part gala concert presided over by Levine and Mehta (247 7800).

DANCE

Metropolitan Opera 20.00 American Ballet Theatre triple bill, including Jiri Kylian's Sinfonietta. Tues to Fri: new staging of Don Quixote by Vladimir Vasiliev. Sat: Twyla Tharp programme (362 6000). This week's NY City Ballet programme at the New York State Theater opens tomorrow with Peter Martins' new production of The Sleeping Beauty (870 5570)

THEATRE

This week's Broadway shows are headed by Miss Saigon, a transfer of Nicholas Hytner's London production starring Jonathan Pryce and Lea Salonga (Broadway Theater) and Gypsy, Tony Award-winning production of the musical with lyrics by Stephen Sondheim and the original Jerome Robbins choreography (Marquis). Off-Broadway shows include Colette Collage, two musicals about Colette taking an intimate look at two distinct points in her life (Theater at St Peter's), and Haunted Host, Robert Patrick's play about a Greenwich Village writer who is haunted by the memory of his young protegé and confronted by the dead man's double (Actors Playhouse). *Ticketron (246 0102) answers* inquiries and sells tickets

■ PARIS

MUSIC AND DANCE

This week's events include a final chance to catch Ruth Berghaus' staging of Ariane et Barbe-bleue tomorrow at the Chatelet (4028 2840); Robert Carsen's production of Manon Lescaut tomorrow, Thurs and Sat at the Opéra Bastille (4001 1616); Giselle at the Palais Garnier, performed by the Opéra Ballet daily from tomorrow (4742 5371); a concert at the Salle Pleyel on Fri by the Toronto Symphony Orchestra conducted by Gunther Herbig (4563 0796), and a Sun morning recital by Francois-Rene Duchable at the Théâtre des Champs-Elysées (4720 3637)

THEATRE

The repertory currently includes Jean Genet's The Balcony at the Odeon-Théâtre de l'Europe (4325 8092); Marivaux's La Fausse Suivante, Strindberg's The Father and Molière's Le Malade Imaginaire at the Comédie Française (4366 4360)

■ VIENNA

Staatsoper 18.30 Claudio Abbado conducts Khovanshchina with a cast led by Vladimir Atlantov, Marjana Lipovsek, Nicholai Ghiaurov, Heinz Zednik and Anatoli Kotscherga. Tomorrow: Schreker's Der ferne Klang. Wed: La Bohème with Freni and Carreras. Thurs: Eva Marton sings Salome. Sat: Tannhäuser (51444 2960)

Volksoper 19.00 My Fair Lady. Tomorrow: Merry Widow. Wed: Grafin Mariza. Thurs: Cinderella (ballet). Fri: Eine Nacht in Venedig. *Sat: Kiss Me Kate. Sun: Giustino* (51444 3318)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

Eurosport

0600-0630 International Business report

CNN

0500-0530 Moneyline
0800-0830 Moneyline
1230-1300 CNN Market Watch
1330-1400 Business Day
2000-2030 World Business Today - a joint FT/CNN production with a review of the day's major business stories
2300-2330 World Business Today
0100-0130 Moneyline

Superchannel

0700-0830 Financial Times Business Report
A five minute business briefing broadcast three times between 0700 and 0800
2220 - 2250 (Wed) Financial Times Business Weekly - the latest round-up of business news with James Bellini and Debbie Middleton.
0830 & 2030 (Thurs) Financial Times Business Weekly

Sky News

1200 International Business Report
2130 (Thurs) Financial Times Business Weekly

SATURDAY

CNN

0800-0830 Moneyline
0900-0930 World Business Today - a joint FT/CNN production
1540-1610 Moneyweek
1900-1930 World Business This Week
2110-2140 Your Money

SUNDAY

Superchannel

1800-1830 FT Business Weekly
1830-2000 FT Business Weekly
2330-0030 FT Business Weekly

Sky News

1030-1100 FT Business Weekly

CNN

0710-0740 Moneyweek
1540-1610 Your Money
1900-1940 Moneyweek
0040-0110 Inside Business

FINANCIAL TIMES
NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Monday April 29 1991

Protecting Iraqis

EVENTS IN Iraq get steadily harder for the layman, and perhaps even the specialist, to follow. Reports of the savagery used by President Saddam Hussein's regime to suppress the March uprisings and to punish the communities which took part in them continue to pour out. Yet not only does Mr Saddam himself keep proclaiming his intention to turn over a new leaf and introduce democracy: the leaders of the Kurdish rebellion themselves appear to take his statements at face value.

They say they have reached agreement with him "in principle" on Kurdish autonomy, and that they regard democracy in Iraq as the best guarantee of such an agreement. They are even photographed embracing him on both cheeks.

Meanwhile Kurdish refugees on the Turkish border are refusing to leave the mountains even for the camps being established under American, British and French military protection: the western allies are extending their protected zone eastwards along the border; and Britain, supported by its European partners, is proposing the creation of a UN police force to give the Kurds greater and longer-term security within their own country.

It is indeed ironic, and at first sight inexplicable, that Kurdish leaders, who a few weeks ago were pleading in vain for western intervention in the Iraqi civil war, should now appear more respectful of Iraqi sovereignty than the western powers.

Western attitude

But their attitude now has to be understood in the light of the western attitude then. Rightly or wrongly, the west declared its unwillingness to remove Mr Saddam from power, or even to support those Iraqis who were trying to do so. More recently, it has been reported that the US Central Intelligence Agency now believes Mr Saddam capable of staying in power for some time, perhaps indefinitely.

The Kurdish leaders have taken note of that. They do not and cannot regard the "safe haven" being constructed along the Turkish border as a solution to their people's problems. In the first place it is not large enough to contain anything like all the refugees.

Second, it is clear the allies do not intend to stay there indefinitely, and the Kurds have to ask what will happen after their departure.

Third, if the Kurds do not soon return to their homes further south there is a real risk that much of their homeland will be repopulated with Arabs and so become lost to them for ever.

Key question

If Mr Saddam is going to stay in power in Baghdad they need a deal with him, however repugnant that may be. As for the embraces, they do not imply any affection. They are simply the Middle Eastern equivalent of a handshake.

But the agreement has still to be negotiated in detail. The key question is bound to be: what will make it look convincing enough to persuade Kurdish families, who fled in utter and justified panic a month ago, that they can now safely return?

Here is where western and Kurdish strategy may converge again, in the shape of Mr Douglas Hurd's proposed UN police force. The Kurds should latch on to this in their negotiations with Baghdad, and insist that Iraq itself, as part of the deal, request the deployment of such a force not merely in the north but throughout the country.

Iraqis need protection from their own government not only in Kurdistan but "in many parts of Iraq", as was recognised by the UN Security Council three weeks ago when it passed Resolution 688; and the Kurds for their part need to demonstrate their solidarity with the rest of the Iraqi population, to rebut the inevitable accusations of betrayal from other opposition spokesmen.

Their instinct is right: democracy throughout Iraq would be their only long-term security. Mr Saddam now claims to be offering that, but he must know that without external protection Iraqis will never feel free to vote against Ba'ath party candidates. A UN police force is essential if genuinely free elections are to be held; and sanctions should not be lifted until free elections have taken place.

UK aid and the poor

ONE OF THE hallmarks of the Thatcher decade was a grudging attitude towards development. UK aid spending fell from 0.52 per cent of gross national product in 1979 to just 0.31 per cent 10 years later.

Not surprisingly the Organisation for Economic Co-operation and Development picks on this record in its latest review of British aid policy. The relatively modest cash increases planned for the next few years will lead to only a slight rise in real spending. Aid could even decline further in proportion to GNP, the OECD says.

Third World lobby groups have drawn attention to the report in the hope that Mr John Major will turn out to be more generous than his predecessor and increase the budget accordingly. This hope looks vain and may be simplistic. The return to fiscal deficit makes the granting of extra aid unlikely. Anyway, increasing the budget only makes sense if recipients can usefully absorb the extra funds, and if it does not involve sacrificing the quality of the aid programme.

Too much of the UK aid budget remains tied to the procurement of British goods and services. The UK is one of the worst offenders in the industrial world in this regard. The government has begun to reverse this policy, at least where the poorest countries are concerned, but the OECD rightly says it should do more.

Unfortunate blemish

The UK's predilection for tied aid is a blemish on a programme that is otherwise characterised by an exemplary level of concessionality, concentration on the poorest countries and professional evaluation of projects and programmes. Tying aid diminishes its effectiveness. It limits choice and raises procurement costs. Reduce tying, the argument goes, and the effectiveness of UK aid could be further enhanced. Yet critics such as the OECD must accept that a cut in tied aid would make it even harder to drum up support for an increased aid budget.

Pressure for tying remains strong in industry, which too often sees the aid budget as being primarily designed to benefit British companies rather than the poor peoples of the developing world. Indeed, in the general argument about the level of the aid budget, industry is all too willing to gloss over the fact that much aid is necessary simply to offset trade protection in the First World. The UK boasts a relatively open economy, but it is far from innocent in this respect. If Mr Major were really concerned about development, he should persuade his EC colleagues to abolish import restrictions on farm products. The need for aid would certainly diminish as protection is lifted.

Fallible institutions

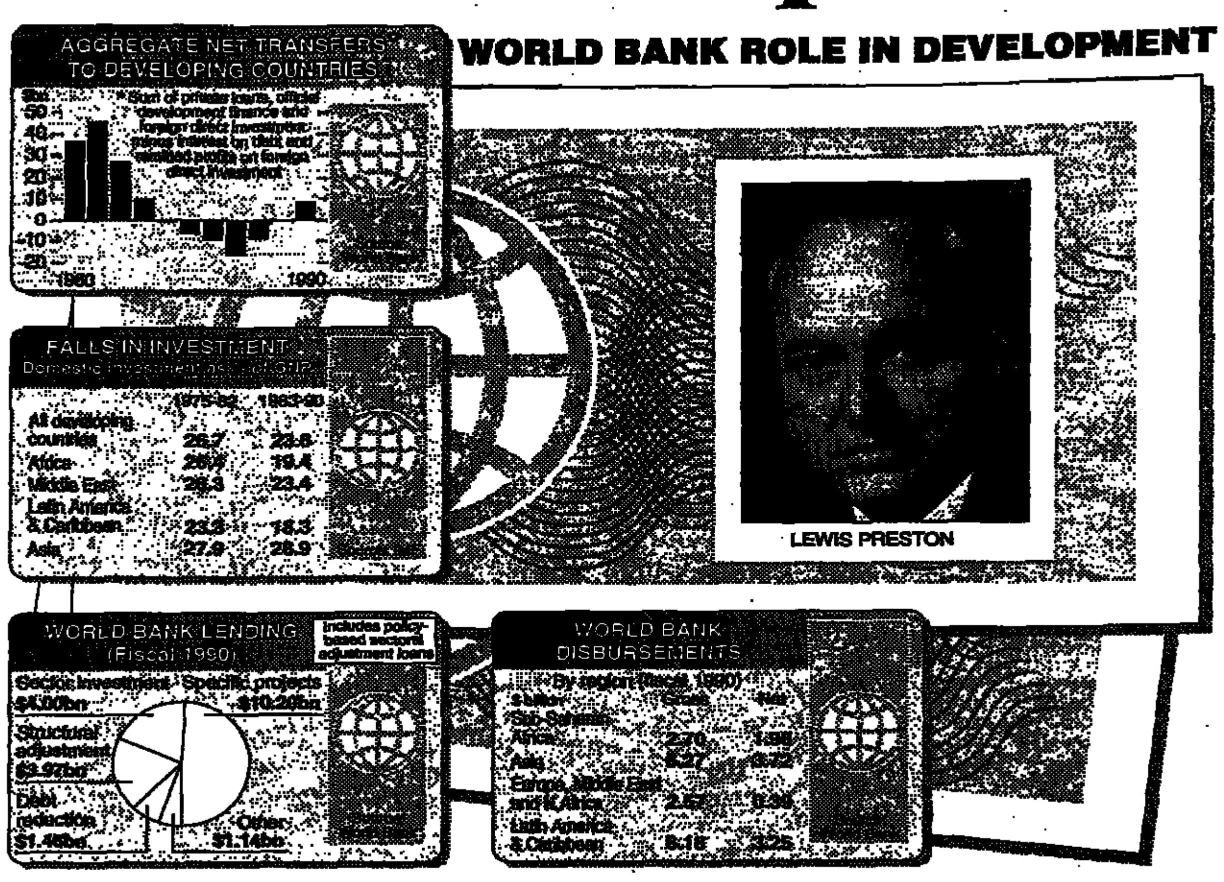
The general rule is that the larger the aid budget, the tighter the strings attached. UK spending is increasingly conditional on the recipient's following International Monetary Fund and World Bank adjustment programmes. This should help to ensure that spending is effective, but the principle should not be followed slavishly. The Bretton Woods institutions are fallible too.

Another feature of British policy is the new fashion for targeting aid towards countries seen as offering "good government". This is generally taken to mean a level of democracy sufficient to make government accountable, minimise corruption and secure basic human rights. This has some merit. After all it is easier to help well-governed countries. But the policy is too vague and easily overridden for the sake of other foreign policy objectives. Under a good government yardstick countries like Kenya and Malawi would not deserve to be large recipients of British aid.

Perhaps the best yardstick is the one which opinion polls suggest the public prefers, namely the degree to which aid actually helps the very poor. This is a standard which implies a need for good government in the recipient country without making it into an obsession. The public is right to be suspicious of the use of aid to further Britain's commercial interests or to curry diplomatic favour with developing country leaders.

As bankers and finance ministers gather in Washington, the World Bank looks for fresh vigour under a new chief, says **Michael Prowse**

Challenge to foster human capital



How can 6,000 civil servants, mostly based in Washington, best promote development in the Third World? That is the vexing question facing Mr Lewis Preston, the former chairman of J P Morgan, the New York bank, who takes over as president of the World Bank this September.

As bankers and finance ministers gathered in Washington this weekend for the spring meetings of the bank and International Monetary Fund, there was no shortage of advice. The US Treasury wants the bank to bypass the governments of developing countries and lend sizeable sums directly to the private sector. The bank is also under pressure to follow the example of Mr Jacques Attali's European Bank for Reconstruction and Development (EBRD) and attach strict political conditions to its loans. Development economists, meanwhile, are urging the bank to respect the rhetoric of last year's World Development Report and focus more on poverty alleviation.

Mr Preston may relax on one count. Few in Washington now doubt that the bank is needed: new imperatives, such as reconstruction in eastern Europe and the Middle East, have merely been superimposed on older, unsolved problems:

- Grinding poverty is a near universal condition in much of the world: 1bn people live on less than $1 a day.
- More than 110m Third World children lack access even to primary education.
- Horrific inequality abounds. In Mexico, life expectancy for the poorest 10 per cent is 20 years less than for the richest 10 per cent.

What kind of bank will Mr Preston inherit from his predecessor, Mr Barber Conable? Most reports are mixed. "It is not an impressive bureaucracy," says Mr John Williamson, a senior fellow at the Institute for International Economics. "The morale of staff is lousy," says Mr Charles Flickner, a senior analyst on the Senate Budget Committee and close observer of the bank. Mr Conable, a former Republican congressman, arrived at the bank in 1986 knowing little about either banking or development. Although now well-liked (partly for championing causes such as women's rights in the Third World), many observers say he never fully recovered from a rocky start involving a divisive internal reorganisation of the bank.

Mr Percy Mistry, a scholar at Queen Elizabeth House, Oxford, and former senior adviser at the bank, says it suffered from "presidential failure" during the 1980s. Mr Robert McNamara, a forceful chief executive in the 1970s, built a presidential institution that responded to firm leadership from the top. But neither Mr Conable nor his predecessor, Mr A W "Tom" Clausen, a commercial banker, could fill his shoes. For a decade the bank has effectively been run by two senior – and strong-willed – vice-presidents: Mr Ernest Stern (who nearly left last year to join the EBRD) and Mr Moeen Qureshi.

Mr Preston's first challenge, says Mr Mistry, will be to wrest control of the bank from Messrs Stern and Qureshi; his second, to prune legions of "useless advisers" and install managers with real-world experience. His third, one might add, will be quickly to establish his independence from the US Treasury which always browbeats a newcomer.

What kind of development legacy will Mr Preston inherit? In spite of recent progress in a few countries, such as Mexico, the past decade has been one of relative failure. Many Third World countries have gone backwards. Real per capita incomes have declined substantially in sub-Saharan Africa and the Middle East, and mildly in Latin America.

The biggest drag on growth is the huge debt accumulated in the 1970s and early 1980s. Many optimists see the debt reduction strategy launched by Mr Nicholas Brady, the US Treasury Secretary, in 1989, as a "final solution" to the debt crisis. Under the plan official agencies assume some of the burden of developing countries' private debts on condition that they implement market-oriented economic reforms.

"The Brady plan is enough," says Mr Williamson, if developing countries are willing to embrace reform and if it is matched by greater forgiveness of official debt. Officials such as Mr David Mulford of the US Treasury say the recent forgiveness of about half of Poland's official debt will not set a precedent for other debtors. Mr Williamson laughs. "In the long run it will be impossible to isolate Poland," he says. "It is not so much more deserving than other countries."

But why was a Brady-type solution not launched much earlier? For most of the 1980s, the First World doggedly refused to consider debt forgiveness. The result of delay and compound interest is a total debt burden today of some $1,341bn compared with a relatively manageable $639bn in 1980. "The bank failed to take a timely leadership position on the debt crisis," concludes Mr Richard Feinberg, director of the Overseas Development Council in Washington. (The IMF was equally short-sighted.)

As incoming president, Mr Preston must review the bank's strategies for promoting development. The main innovation of the 1980s was a switch from project lending to "structural adjustment" lending. Making finance conditional on structural reforms was supposed to transform the economic performance of developing countries.

But studies indicate the results have been fairly unimpressive. This is both because countries failed to abide by the loan conditions and because the bank's policies were sometimes misguided. Professor John Toye, director of the Institute for Development Studies at Sussex University, recently completed an exhaustive analysis of bank programmes. He concludes (as do internal bank analyses) that policy-based lending has "achieved something, particularly in relation to the external account, but not nearly as much as the bank and donor community hoped". On average programmes have reduced balance of payments gaps, had a negligible impact on Gross National Product and led to falls in the ratio of investment to GNP.

Mr Preston will quickly have to establish his independence from the US Treasury, which browbeats newcomers

Mr Feinberg calls the decline in investment the "great shortcoming of structural adjustment lending in the 1980s". (Investment to GNP ratios have fallen markedly in Africa, the Middle East and Latin America.) He says the bank was naive to expect entrepreneurs to respond to the austerity of adjustment by increasing investment.

How can the bank do better in the 1990s? One problem is that it has lost leverage over many Third World governments. The maturing of bank programmes and the failure to expand lending much in the 1980s has led to a marked shrinkage in its net transfers to developing countries. According to Mr Lawrence Summers, the bank's chief economist, net transfers over the next five years will be about $2 per person in the developing world compared with $9 (in current prices) in the late 1970s. For the large number of countries that do not qualify for concessional loans, the net flow will be negative.

Some analysts, including US Treasury officials, believe lacklustre performance in much of the Third World reflects the inefficiency (and sometimes corruption) of governments. The EBRD's constitution requires borrowers to be "committed to and applying the principles of multi-party democracy, pluralism and market economics". It also says 60 per cent of EBRD resources must be devoted to the commercial sector – private businesses and state concerns in the process of privatisation. The World Bank operates under very different rules: its charter requires it to be non-political and only its small affiliate, the International Finance Corporation (IFC), can make direct loans to private businesses. Should the bank's charter be amended?

Direct parallels between the bank and the EBRD are dubious. The EBRD is ministering to a region that has historical ties with western Europe and that has declared its commitment to democracy and free markets. Such values are alien in many developing countries, but that does not imply they should be denied the means for economic development. If strict political conditionality had been imposed in the past, the bank could not have lent to a development star such as South Korea.

Most analysts, however, say the bank should tighten up a little. Mr Flickner of the Senate Budget Committee says the issue is not whether to insist on Westminster-style democracy but whether the form of governance is such that "loans will benefit the majority of the people". Bank officials say greater attention will be paid to issues such as the rule of law and transparency of decision-taking.

Should a significant chunk of the bank's loans be made direct to the private sector? Mr Conable, to his credit, is resisting the US Treasury's pressure. He says the bank's main aim is to combat poverty and that it will seek a "balanced relationship between government and the market" in developing countries. In reality, much of the most badly-needed investment is in spheres such as infrastructure, health care and education where governments play a dominant role even in industrialised countries.

Indeed, one conclusion of Prof Toye's analysis is that policy-based loans would have a greater chance of success if they included measures to expand the role of the state in poorer countries alongside measures to promote economic liberalisation.

Sir William Ryrie, the head of the IFC, says the objective of a large volume of public lending to the private sector is wrong-headed. "What we are trying to do is facilitate the flow of private-sector funds into sound investments." Advocates of a switch to direct support of the private sector are surely not arguing for public subsidies for Third World entrepreneurs; but if subsidies are ruled out, why should the bank's judgment of market risk be more reliable than that of private lenders in the west?

There are alternative recipes for fostering faster Third World development. During the 1980s the bank placed great faith in free market nostrums. It wanted to impose on developing countries policies that had become recently fashionable in the industrialised world. But the notion that economic liberalisation alone is sufficient is increasingly questioned. The bank's own research department is highlighting the need to relieve poverty directly and to improve fundamentals, such as education, nutrition and health care.

"Liberalisation matters," says Mr Williamson at the Institute for International Economics, "but education is more important." He argues that the best way of stimulating growth and improving income distribution is to put resources into education and primary health care. Mr Feinberg at the Overseas Development Council broadly agrees: the bank has got to find a way of "melding equity and efficiency as it promotes development".

The challenge for Mr Preston is clear: put the sterile ideological battles of the 1980s behind the bank and develop policies that put greater emphasis on the formation of human capital.

Mr Summers, the bank's economist, says pessimistically that because development money will be in short supply over the next decade, the bank and other donors will have to concentrate on exporting ideas. Ideas are certainly important, but they do not build hospitals or schools. More money could be made available: a mere 10 per cent cut in western defence spending, for example, would pay for a doubling of official aid. Rather than tamely accepting the status quo, Mr Preston could use his platform to promote a more constructive attitude in rich countries.

OBSERVER

Vintage mystery

■ While the City of London awaits the start of the second Guinness trial, an equally complex drink-related scandal is causing deep concern in the dining rooms, if not boardrooms, of some of the most influential companies in the land.

It is the case of the £1.5m worth of vintage wine seemingly evaporated from Green's, the once pukka wine vaults where generations of famous City figures have stored their liquid assets.

After months of silence, last week Southwark police swooped before breakfast on seven addresses in London and the home counties and arrested two men. They were later released, and although some wine was recovered, the police are not saying whether it is the missing booze or just another false trail.

One of the problems is that it is still not clear how much wine has gone walkabout. It could be 4,000 cases, or then again 6,000 cases or more. The records of the 200-year-old firm are in such a mess that no one is sure who owns what. The police will soon be sending questionnaires to Green's 1,000 or so customers to find out how much wine they thought they had stored at the vaults.

Green's, which used to keep shop at the Royal Exchange before straitened circumstances forced it out of the City, has changed hands several times.

Chris Collins, a well-connected Old Etonian and former amateur jockey, owned it for a brief period, selling it to American Donald Kurtz, who kept it even more briefly before unloading it on South African Joe Mankowitz in January 1990. Less than 10 months later Mankowitz sold the wine-storage operation to John Ryan, a businessman from Australia. Shortly after that, customers' wines are alleged to have begun disappearing.

If readers have any clues, Detective Sergeant Simon Janes at Southwark police station would much appreciate some assistance.

Rationed

■ Meanwhile the absence from the Guinness appeals of Richard Ferguson QC, acclaimed for his handling of ex-Guinness chairman Ernest Saunders's defence at last year's City trial, has aroused speculation that the two men must have fallen out – or that Saunders was unhappy with Ferguson's advice or trial performance.

The truth is that Saunders had every confidence in Ferguson and wanted him to lead his legal team on the appeal. Moreover Ferguson was ready to do so.

But Saunders is legally-aided and, although allowed both a QC and a junior barrister for his trial, was permitted only the junior – the able Antony Shaw – for the appeal.

Perpich's lore

■ Rudi Perpich, former democratic governor of Minnesota, hopes to extend the horizons of out-of-work US politicians. He wants to be foreign minister of Croatia, the second largest Yugoslav republic.

There has never been a case of a former American governor serving in the cabinet of a foreign government. So Perpich, a Croatian-American who speaks the local lingo, could make history provided the State Department agrees not to revoke his US citizenship.

His role would be to introduce Croatia to the world and promote trade and investment, a job he did rather well in Minnesota. However, Perpich is a colourful and sometimes unpopular figure. Nicknamed "Governor Goofy", he once proposed selling the governor's mansion following criticism of his lavish lifestyle.

When the state refused his demand for a second official portrait, he had one painted privately. Then he posted a huge blow-up of it near the state Capitol, with the message: "They won't let us in the Capitol, so 'Hi' from here."

"Scalpel..."

Brush-off

■ One consolation for loss of office that Margaret Thatcher might have expected is Germany's Ludwig Erhard prize, awarded yearly for distinction in practising or commentating on economic policy.

She has at least once been considered for the award by the Ludwig Erhard Foundation – which promotes the "social market" tenets of West Germany's legendary economics minister. As a serving premier, though, she was ineligible.

Now the bar of office has gone, but the prize committee has given her the brush-off. It has ruled her out on the ostensible grounds that she's a "capitalist" as opposed to a mixer of market economics with social-policy pragmatism in the German style.

This year's award is going instead to Bundesbank president Karl Otto Pöhl, who's unpopular with Chancellor Helmut Kohl because of his criticism of policy towards eastern Germany. So the award is an important vote of confidence from the country's economics establishment for Pöhl's reluctance to sacrifice the D-Mark through rushing into European monetary union.

When he collects the prize in Bonn on July 2, a speech in his honour will be made by good friend Fritz Leutwiler, ex-president of the Swiss National Bank. Given the tensions between the Bundesbank and Kohl, however, it would be surprising if the chancellor turned up to listen.

Rock back

■ While the next UK general election will have the novelty of a fresh prime minister going to the country for the first time, one feature of the electoral landscape will remain in place. An old rock has resurfaced to confront John Major in the shape of grand tv inquisitor Sir Robin Day.

After going into the relative obscurity of satellite television on retiring from the BBC, he is to make a political comeback on ITV. And while some people may think he has reached his sell-by date, they are unlikely to include Major who's now headed for the traditional grilling before the cameras.

But then so are Neil Kinnock and Paddy Ashdown, since Day has been signed by the This Week programme to do its main leadership interviews during the election run-up, whenever it is called.

Precisely

■ Schoolboy's explanation of a rhetorical question: "One with no answer to it – eg: What has the government been doing all these years?"

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Pool Purchase Price	Pool Selling Price
[illegible]	[illegible]	[illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Pool Purchase Price	Pool Selling Price
[illegible]	[illegible]	[illegible]

National champions become laggards

Europe's electronics industry is in crisis and may not last the decade. Guy de Jonquières and Alan Cane analyse why

It has long been a tenet of European industrial policy that a successful modern economy depends on a healthy electronics sector. Yet the deepening crisis among Europe's electronics producers suggests that their biggest challenge this decade may be to survive at all.

Most European-owned chipmakers made losses last year, as did many computer companies and Philips of the Netherlands, the biggest electronics group. Savage cutbacks across the industry have brought almost 100,000 job losses, while the European Community's annual electronics trade deficit has swelled to almost $35bn.

Distress signals are multiplying. Mr Alain Gomez, chairman of the French state-owned Thomson group, is openly urging more trade protection. Earlier this month, he and other industry leaders sought more EC support at a "mini-summit" chaired by Mr Jacques Delors, president of the European Commission.

The industry has long argued for special treatment on two grounds. One is that the market for its products is growing fast. The other is that they are used by so many sectors, from cars to financial services, that failure to retain a European presence in electronics could jeopardise industrial competitiveness across a broad front.

Many national governments and the EC have responded sympathetically. In the name of safeguarding a "strategic" sector, they have repeatedly supported indigenous electronics producers with subsidies, preferential procurement and trade protection.

Yet these remedies have failed to cure deep-seated problems – and may have prolonged them. Not only have misjudged policies perpetuated bad habits in the industry, they have often been inconsistent with the larger goal of disseminating advanced technology throughout the economy.

The first error has been to confuse invention with product innovation. Most EC funding has focused on expanding research and development, emphasising collaborative projects intended to boost European companies' technological firepower.

Some critics say EC subsidies have been spread too thin to be effective. More fundamentally, they do not address one of European manufacturers' biggest traditional weaknesses – a belief that laboratory breakthroughs can substitute for efficient manufacturing and aggressive marketing.

That is a costly delusion in an industry ruled by short product cycles and steeply falling prices. Japanese companies have thrived by concentrating their technical resources on product development and production engineering and fine-tuning them to the market.

Europe's industry structure has also adapted sluggishly to rapid technological advance. In the US, the established order is regularly challenged by home-grown market entrants. The industry shake-up instituted by innovative newcomers such as Compaq and Sun Microsystems is as responsible as the recession for the current difficulties of traditional US computer companies, including IBM.

In Japan, the most potent agent of change is also intense domestic competition. But there it is chiefly between large vertically-integrated groups, whose thirst for business drives them constantly to invade each others' markets.

In Europe, by contrast, lack of a fertile start-up culture has left slow-moving older companies dominating the indigenous electronics industry. Direct competition between them is often timid: most European computer makers still rely heavily on their home markets. European companies have also often been late into hot new products such as camcorders and scientific workstations.

Europe's three main chipmakers – Philips, Siemens of Germany and the Italian-French SGS-Thomson – are being heavily subsidised in their efforts to catch up in chip technology. They are also discussing pooling research. But they account for only about 10 per cent of world production – and barely 30 per cent of European sales – and are poorly represented in the high-volume microprocessor and memory segments.

Indeed, the only electronics equipment sector in which Europe boasts consistently profitable world leaders is telecommunications, where monopoly procurement of network equipment in most countries continues to shelter entrenched suppliers and maintains high margins.

Inadequate home demand is often blamed for industry weaknesses. Though Europe's spending on information technology has been rising, it is still lower per head than in the US and Japan. The market is also divided by differing national standards and fragmented distribution channels, which add to selling costs.

However, volume of demand is probably less important than its quality. As computer power grows steadily cheaper, the sophistication and complexity of the applications to which it is harnessed play a bigger role in expanding the market. Producers are depending more on customers to set the pace and direction of the industry.

But large European information systems users are notoriously cautious about pioneering leading-edge applications: those which do often prefer US suppliers for their superior expertise. Brussels is now considering plans to boost demand by persuading national authorities jointly to back a futuristic Europe-wide electronic information network.

The project raises several questions. First, whether the large contracts it would generate could legally be reserved for the European-owned suppliers it is intended to benefit. Second, whether it would not simply repeat at the EC level European countries' largely unsuccessful use of public procurement to bolster national champion suppliers. The result has often been to induce dependence on captive markets.

Putting the interests of producers ahead of customers has been a consistent – and often unsatisfactory – theme of European electronics policies. For instance, the EC's faltering strategy for high-definition television (HDTV) has been shaped largely by European equipment makers anxious to keep Japanese competitors at bay. Only recently has an effort been made to involve broadcasters, whose commitment is vital to HDTV's success.

Perhaps most dubious of all have been EC attempts to use trade protection to strengthen indigenous producers. During the 1980s, repeated EC anti-dumping actions led to price rises of as much as 50 per cent on electronics imports from computer printers to video recorders.

Since offending exporters have often agreed, under EC pressure, to raise prices unilaterally, they have reaped windfall profit gains paid for by European consumers. Yet there is little evidence that threatened European producers have taken advantage of anti-dumping relief to step up investment and raise productivity.

In semiconductors, the EC has followed the US by engineering trade arrangements which require Japanese producers to co-operate in limiting price reductions at times of glut. That is profoundly ironic, since European chipmakers have long warned that if they were unable to compete, Japanese producers would collude to rig the prices and supply of components sold to European customers.

If that was ever a serious risk, it has been mitigated by the rapid growth of large Japanese-owned chip plants in the EC. It would hardly be in Japanese companies' interest to restrict output to local customers after laying out billions of dollars on production capacity.

Indeed, the recent influx of Japanese and US investments is one of the main sources of European electronics industry growth. Yet it is also posing new policy dilemmas, underlined by the outcry over the acquisition of ICL, Britain's largest computer maker, by Fujitsu of Japan last year.

ICL has since been expelled from the European industry's most influential lobby group and partially excluded from Jessi, the $5bn EC-funded microchip research programme. That response was doubtless intended as a warning to the Japanese. However, it also poses awkward questions about the EC's insistence on defining the electronics industry narrowly in terms of a shrinking number of European-owned suppliers.

Behind the indignant chauvinism lies, nonetheless, a more serious concern: that if Europe's electronics industry passed entirely into foreign hands, critical management and technological functions would move overseas. The industry could be reduced to branch plants making mature products, with little capacity to innovate.

Yet in this context, corporate ownership is something of a side-issue. For many companies, including Bull, ICL, Olivetti, Thomson and Siemens already rely heavily on overseas competitors for products and vital technologies. The flow is almost all one way – and is growing.

The industry's options appear limited. Trans-European mergers, frequently touted as a way to strengthen indigenous producers, have often proved tricky to arrange. In microchips and consumer electronics, such mergers have also been disappointingly slow to deliver improved scale economies and financial returns.

Meanwhile, the EC Commission is refusing to bail out troubled companies, and its competition watchdogs are investigating French state aid to Bull. In any case, the French government's largesse is bounded by budgetary constraints, which recently prompted it to relax its opposition to privatisation.

Nor would further trade barriers offer much of a solution. Past EC trade protection has proved a Maginot Line, easily penetrated by overseas companies which have set up plants to compete from inside the EC.

Barring a miraculous recovery in their performance, the outlook for many of Europe's embattled electronics manufacturers is likely to be further retrenchment and takeovers. The most optimistic prognosis may be that, as they retreat, innovative home-grown competitors will spring up in their place.

That is what has happened in the US. However, the US has also long had a dynamic and demanding home market. The lesson for Europe may be that indigenous suppliers can only be as vigorous as the customers they serve.

Samuel Brittan

You don't have to 'compete'

It has long looked likely that economic performance depends not only on "economic" variables such as resources, or incentive and ownership structures, but also on more elusive psychological attributes – which have been treated in studies such as Martin Wiener's well-known English Culture and the Decline of the Industrial Spirit.

It was therefore worth seeking out evidence of national differences in attitudes to work, studies, money and so on, and see how they related to more conventional indicators. Prof Richard Lynn's study, undertaken with a 48-person international team, entitled The Secret of the Miracle Economy (Social Affairs Unit, 104 Park Street, London, W1Y 3RJ, £8.95) is therefore welcome – so long as it is examined critically.

Attitudes were ascertained by means of questionnaires put to students. This is obviously far from ideal, but better than nothing. The four theories examined in the study relate to economic growth to a Protestant-type work ethic, to a comprehensive "achievement orientation", to competitiveness at the individual level and to "valuation of land". The last is a negative factor and is a generalisation of the Wiener theory relating to Britain's poor relative performance in the last century to a national preference for the supposed virtues of the landed gentleman over those of the successful businessman.

Lynn reports that only "competitiveness" is significantly associated with economic growth. By competitiveness Lynn does not mean a low real exchange rate or openness of markets to new entrants, but enthusiastic personal support for propositions such as: "Winning is important in both work and games." Competitiveness is itself associated with other variables such as individuals attaching high value to money and wanting to enter business. But the essence is the triumph of winners over losers. It is different from the economist's idea of the pursuit of wealth or real income (including leisure) which does not in principle require the existence of losers at all.

The headline conclusion is that competitiveness is higher in the five "miracle" economies of East Asia – Korea, Taiwan, Hong Kong Japan and Singapore – than it is in Europe. There is a consolation for Britain, which is well up in the European league, and scores higher not merely than Norway or Sweden, but Germany and Switzerland as well.

But if the reader glances at the full table in the study he will find that the world leaders in competitiveness are not the East Asian stars at all, but Egypt, Jordan and Bangladesh in that order. There is, however, more genuine reassurance elsewhere. If developed and developing countries are considered in separate groups, no significant relationship is found between competitiveness and real per capita income. Thus the not very edifying elbowing-out attitudes are much less important for countries wishing to stay at a high income level than for poorer countries aspiring towards them.

A similar disclaimer applies to the warning about the ambitions of the able young in advanced societies towards the caring professions, such as medicine, teaching and social work. The psychological law of diminishing marginal utility, which is studied more by economists than psychologists, tells us very crudely that the more you have of something the less you value additions to it, relative to something else. Thus, rich countries can afford a shift to less business-oriented values even if it means a sacrifice in the rate of growth of take-home pay.

The value of a market economy to me has always been the choice of life-style. You do not have to be a thrustful competitor unless you want to. This advantage remains despite the new study.

LETTERS

Car tax: the industrial damage and the illogicality

From Mr Bill Morris.

Sir, Your feature on the problems facing the British motor industry arising from government economic policies (April 24) mentions the negative effect of the special car tax on the industry.

The Transport and General Workers' Union – the largest trade union in the UK car industry – is launching a campaign to persuade the government to scrap this tax, which is jeopardising thousands of motor manufacturing jobs.

The car tax is levied in addition to VAT on all new passenger cars at a rate of 10 per cent of the wholesale price. This adds about 8.3 per cent to the recommended retail price. Together with VAT, the effective rate of tax on new cars is therefore 27.5 per cent in the UK, compared to 22 per cent in France and just 14 per cent in Germany.

Abolition of the tax would help the industry at a time when help is most needed, with the recession hitting demand and hence employment. The revenue lost to the government through the abolition of the tax would, I believe, be largely made up through additional VAT receipts and petrol tax consequent on more new car sales.

Of course, the TGWU's interest is in the first place in protecting the jobs of the thousands of our members in the industry, which the recession is currently putting at risk. We recognise that this can only be done by helping the industry on to a better competitive footing. The simplest single step the government could take in order to do its bit would be to scrap this unjustified and burdensome tax.

Bill Morris,
deputy general secretary,
Transport and General Workers Union,
Transport House,
Smith Square, SW1

From Mr Simon R Foster.

Sir, Your leader ("A plea for the motor industry", April 25) makes some good points about the discriminatory special car tax but is illogical with regard to company cars.

You rightly differentiate between perk cars and work cars. Would you not agree that the chancellor should also have so differentiated, instead of proposing an increase of 20 per cent across-the-board in all car benefit scale charges?

Simon R Foster,
Society of Motor Manufacturers and Traders,
Forbes House,
Halkin Street, SW1

A misleading link in the debate over capital requirements

From Mr D H A Harrison.

Sir, With the banking industry still dominated by the conviction that "Too Big To Fail" rules, Paul Collins' argument for market-based bank capital requirements ("Prescription for a financial ailment", April 24) is particularly valuable. As he says, "Less capital is not better. Nor is more capital." The amount of capital needed is that which convinces risk-exposed investors and depositors to invest and deposit.

It is misleading, however, to bracket the US with the EC in the debate over limiting the extent of government guarantees to depositors. The US, even in the wake of the savings and loans disaster, continues to concentrate on limiting the quantum of the guarantee, while leaving 100 per cent cover intact. The EC's plans are still under discussion but there is every hope that its proposals for a harmonised scheme will restrict cover to well below 100 per cent of whatever quantum is selected – as does the UK system. Only thus can the depositor discipline, which Mr Collins seeks, be achieved.

It is surprising also to meet such enthusiasm for formula based capital requirements from an exponent of market discipline. The evidence is that the new, undiscriminating, "credit risk" based system is risk-generative and any workable market risk add-on is likely to be so simplistic as to achieve the same result.

Mr Collins' basic premise needs no such artificial support. If depositors can be convinced that they are at least partly at risk, the market will make capital requirements, imposed by supervisors, obsolete. Banks will vie with each other to demonstrate how well capitalised and risk averse they have become. On the other hand, if the US revision of deposit insurance leaves 100 per cent cover intact – at whatever level – the US taxpayer had better start saving up for a repeat performance.

D H A Harrison,
Woodcote Lodge,
West Horsley,
Leatherhead, Surrey

Taxing arguments as seen from Britain's north and south

From Mr Derek Antrobus.

Sir, Mr. Michael Heseltine claimed in the House of Commons last Tuesday that his new Council Tax would be related to a local authority's spending – the only acknowledgement to the principle of accountability in his whole speech.

Unfortunately, his failure to make any changes to the National Non-Domestic Rate (NNBR) and the Standard Spending Assessment (55A) method of revenue support grant distribution make this claim unlikely.

The NNDR will remain a national tax earmarked for local government. The decision of the government to increase its revenue support for local government by raising VAT merely exacerbates the problem that most of a local authority's income is not under its control. Relatively minor increases in expenditure will have a major impact on the Council Tax, the only source of an authority's variable income.

In addition to this gearing effect, there remains the inefficiency of the SSA on which grant distribution is based. The SSA is objectionable in principle since it assumes that Whitehall knows better than a local council what its needs are. The SSA is objectionable in practice because of its unreliability.

It is unreliable because year to year changes may have a serious impact on a council's grant entitlement. For example, Salford City Council had to reduce a standstill budget by £8m this financial year and still increase its Poll Tax by £44 – all because of amendments to its 55A which led to grant loss.

The SSA is also open to political manipulation. It is incomprehensible to most in local government why authorities such as Westminster can gain so much in grant because of the weighting given in the SSAs to the number of tourists visiting an authority. It is incomprehensible why tourists – usually a sign of prosperity - should be seen as a burden on the local taxpayer at all.

D Antrobus,
191 Manchester Road,
Swinton, Manchester M27

From M J Pritchard.

Sir, I wonder why the government decided to apply bands of taxation according to value of property. The added burden placed upon those living in the south-east is self evident and any system related to values will, by definition, involve the expense of valuation. A far more equitable refinement of the system would have been to create banding by property type – terraced house with two bedrooms, moving up to terraced house with three bedrooms; semi-detached house with three bedrooms and so on.

The implication seems to be that those in the south-east pay more for their homes because they can afford to, whereas in reality I wonder whether expendable income, having been saddled with the high cost of a house, is any higher than that of the north.

I doubt whether southerners have the greater expendable income – in which case they are less able to pay the council tax than those occupying similar properties in the north.

M J Pritchard,
managing director,
Commercial Relocation Consultants
PO Box 230
Beaconsfield,
Buckinghamshire

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not handwritten. Please set the fax machine for fine resolution.

FINANCIAL TIMES
Monday April 29 1991

Bank defends London's role as hub

By **David Lascelles**, Banking Editor, in London

THE Bank of England has set up a new committee to identify areas of legal uncertainty which could harm the standing of London as an international financial centre.

The committee will consist of leading figures from financial institutions in the City of London as well as members of the legal profession. It will be chaired by Lord Alexander, the chairman of the National Westminster Bank and a leading barrister.

The initiative, which was spearheaded by Mr Robin Leigh-Pemberton, the Bank governor, is a direct response to problems that have sprung up in the City in recent years because of grey areas in the law. The most notorious is the local authority swaps affair where banks are threatened with hundreds of millions of pounds worth of losses because of lack of clarity in local authority law. There have also been difficulties in the stock lending market because of legal uncertainties.

The new committee will have the job of examining problem areas of the law and considering ways of addressing them. It will be supported by a full-time secretariat based at the Bank of England, and will include a senior official of the Bank and a practising lawyer on secondment from a City firm.

The committee will be funded and supported by the Bank, the major UK banks and leading City law firms. It will report its findings and recommendations to the governor. It will make its first report within a year, but it may report earlier on pressing issues.

The Bank says there is widespread support for the Committee in the City. The City needs firm legal underpinnings to succeed as an international financial centre, particularly with mounting competition from centres on the Continent.

Problems have arisen for two reasons. One is the speed of innovation in the City which has left the law behind in many aspects. Another is the discovery that many long-standing City practices have their basis in tradition rather than the law.

The Bank says that the remedies proposed by the Committee will try to avoid creating new legislation. But where this is not possible, representations will be made to the government on the need to clarify the legal position.

The members of the committee include representatives of foreign as well as UK banks. There are also representatives of the investment banking and fund management industries. The 11 members are Lord Alexander (NatWest), Gottfried Bruder (Commerzbank), Lachlan Burn (Linklaters & Paines), Robin Fox (Kleinwort Benson), Mr Justice Hoffman, Charles McVeigh (Salomon), Humphrey Norrington (Barclays), Ian Plenderleith (Bank of England), Peter Stormonth Darling (Mercury Asset Management), Nicholas Wilson (NatWest), and Philip Wood (Allen & Overy).

● The Treasury and Civil Service Select Committee of the House of Commons, a cross-party parliamentary committee, said it planned to give "further consideration" to the local authority swaps affair. But any further steps will be taken after Mr Norman Lamont, the chancellor, has concluded his own review of the affair. The Bank of England has urged retrospective legislation to regularise the swap transactions after senior judges ruled that councils could not engage in swaps.

Open-ended talks rejected by Shamir

By **Judy Maltz** in Jerusalem

MR Yitzhak Shamir, Israeli prime minister, has rejected a US proposal for an open-ended Middle East peace conference. This is likely to cause tension between the two countries.

The proposal was one of five points that Mr James Baker, secretary of state, and Mr David Levy, Israeli foreign minister, had agreed during talks in Jerusalem on Friday.

Mr Baker's latest Middle East tour ended abruptly later that day when he heard of his mother's death. He arrived in Israel after meeting leaders in Syria, Jordan, Egypt, Saudi Arabia and Kuwait.

Mr Shamir insists that the regional peace conference, which would be sponsored by the US and the Soviet Union, meet only once to lay the groundwork for direct bilateral negotiations between Israel and individual Arab states, and Israel and the Palestinians. The premier fears that, under the conference's auspices, Israel might be forced to give up Arab territories occupied since the 1967 Middle East war.

"We are opposed to that because, if there are subsequent sessions of the same meeting or conference, we'll never get to direct negotiations," said Mr Shamir.

As part of the agreement by Mr Baker and Mr Levy, the conference would reconvene occasionally to hear progress reports, but only with the support of every member, including Israel.

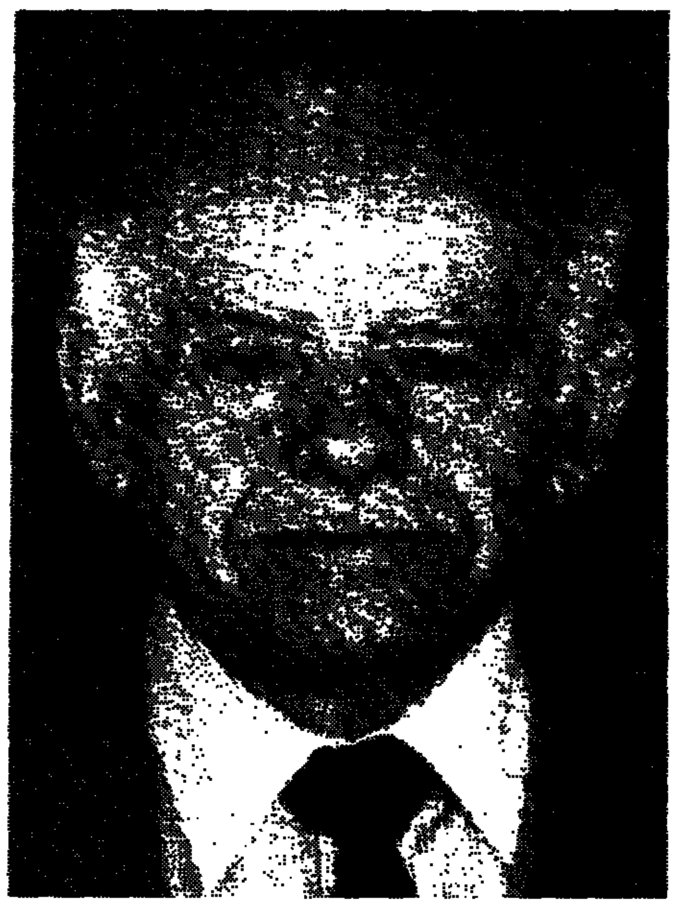
News of the agreement led to a furore at the weekend among some of the more obdurate members of Mr Shamir's right-wing coalition, who threatened to resign if Israel agreed to the open-ended peace conference.

Some of the key issues left unresolved at Mr Baker's abrupt departure from Jerusalem are: what role the UN and the European Community would play in the peace conference, and who would be in the Palestinian delegation to the talks.

Following the weekly Israeli cabinet meeting yesterday, Mr Levy said his agreement with Mr Baker had been co-ordinated in advance with the prime minister. Mr Levy insinuated that Mr Shamir had got "cold feet".

"We will continue to act to advance the peace process and whoever cries of despair or gets cold feet cannot distort the picture – which is that Israel is achieving the most important parameters from the diplomatic point of view in a way that was not achieved in the past."

Mr Shamir tried to play down differences with the US: "I do not think we are heading towards a crisis. These negotiations are important, but I think it's too early to say that efforts in this direction have been frustrated."



Yitzhak Shamir: decision may cause tension with US

Japanese anger at US building sanctions

By **Robert Thomson** in Tokyo

TOKYO has warned that it may retaliate if Washington restricts Japanese contractors' involvement in US government-funded projects, as a means to open Japan's construction market.

A US announcement that sanctions would be imposed after 30 days, unless a market-opening agreement were achieved, has angered Japanese officials, who say the threat will hinder bilateral negotiations on the construction market.

Tokyo officials were surprised by Washington's announcement, as they had assumed US threats were a negotiating ploy and did not expect the administration to set sanctions in motion.

Mr Misoji Sakamoto, Japan's chief cabinet secretary, said the two countries were nearing a conclusion in the construction talks – Washington's decision was "regrettable". He said the unilateral action was in breach of the General Agreement on Tariffs and Trade and might provoke retaliation by Japan.

The US threats follow unsuccessful attempts to replace a 1988 market-opening agreement which provided help for US companies in 14 designated public works projects, including a new airport near Osaka which has been the site of trade disputes over the past year.

Washington wants the list of projects extended, claiming that Japan's construction market is still effectively closed. Tokyo has argued that the first agreement was intended to provide experience for US companies and that they should not continue to receive special assistance.

Behind the US action is the belief that Japanese construction companies routinely organise cartels and rig bids, and that, without special assistance, US companies will struggle to win contracts. Japanese officials say the market is open and contracts are decided on merit.

Japan's Fair Trade Commission in the past two years has uncovered several big construction cartels, including one for the Osaka airport project and another which had rigged bids for contracts at US military bases in Japan.

Lesson from the indexed decade

By Anthony Harris

Last week Mr Robert Hetzel, Vice-President of the Federal Reserve Bank of Richmond, proposed that Congress should instruct the US Treasury to issue index-linked bonds. (We will come to his reasons later.) Since it is the 10th birthday of index-linked funding in the UK, give or take a few days, this is a good occasion to look back at the British experience.

The initial aim was simply to save money. It was Mrs Thatcher's rage at the Bank of England's judgment that the market would require a return of nearly 16 per cent on 20-year conventional bonds, just when her strong assault on monetary inflation had started to show clear results, that triggered the decision. The bonds have indeed proved a spectacular economy for the Treasury. The initial success confirmed the theoretical case: that the right time for indexed funding is when official inflationary expectations are much more optimistic than those of the market. In more recent years, the saving to taxpayers has shown how highly the market values the absence of risk.

In offering a guarantee against nasty inflationary surprises, an inflation-fighting government is, as it were, putting its money where its mouth is. This, however, is just what the British authorities had failed to understand in years of missed opportunities. The Bank in particular argued that these would be "banana republic" bonds (in spite of the fact that banana republics are the main exponents of inflating away conventional debt). More recent comments from the US Treasury and from the budget director, Mr Richard Darman, have been on the same lines. It was nonsense then, and it is still nonsense now.

Some British Treasury officials, on the other hand, were held back by a secret nostalgia for the early 1970s, when they had been using banana republic tactics with great success. British bonds paid such hugely negative real returns that the national debt had by 1976 shrunk to its lowest level since the days of Gladstone, in comparison with national income. It was only after investors had rumbled this strategy that official minds moved.

The economies are easiest to measure in terms of relative interest payments. Mr Robert Bootle of Midland Montagu, a leading student of indexation, has calculated what he calls the "break-even" level of inflation – the rate which would compensate indexed holders for the income they could have had from conventional bonds – for every year since 1981. For non-taxpayers – the pensions funds that hold most of the bonds – actual inflation has been well below break-even level in most years until interest rates were raised sharply during 1988.

If British inflation is measured as it is in other countries, without an interest rate compenent, gross investors have consistently lost 200-300 basis points throughout. Even for high-rate taxpayers, indexed bonds do not look a rewarding investment, except for insomniacs. It is clear, then, that the yield gap represents a risk premium.

There is also, more surprisingly, a fairly consistent risk premium over income returns on equity. This is surprising because while the indexed bonds offer simply a guaranteed real return, equities should on average offer a rising real return, reflecting the real growth of the economy. In spite of this, equity dividends have pretty consistently exceeded the running return on indexed gilts – by more than 300 basis points in the early days, when an inflation garantee seemed too good to be true, and by an average of about 75 basis points in recent years. This yield gap only reversed once. In 1987 a negative gap of nearly 2 per cent appeared – and we all know what happened then. The positive gap is now suggestively thin again.

In short, the existence of a reasonable pool of indexed bonds (about £14bn at issue price at the moment) has privided an anchor rate of real return for the whole British financial market. This probably restrains upside volatility, making the task of monetary management a bit less difficult. It may also raise the cost of investment capital compared with other countries; but this depends on one's assessment of the other great advantage of indexed issues – as a marketing strategy.

Most people prefer milk chocolate to plain; but there is an obstinate minority, including myself, which greatly prefers its chocolate dark and bitter. (Perhaps plain chocolate is for pessimists.) European chocolatiers have always catered for both markets; in the US, Hershey took a long time to come round. The issue of indexed bonds provides plain chocolate for investors – a security for those, such as regional Federal Reserve officials – who worry a great deal about inflation.

Once these pessimists are out of the conventional bonds market, remarkable things can happen. In the UK, holders of ordinary long bonds made a 50 per cent profit in the first six months after the indexed became generally available. From the taxpayer's point of view, this means that the government now pays a plain risk premium rather than a panic premium on its borrowing; so it may be that industrialists can also raise capital a bit more cheaply than they could if there were no indexed bonds in Britain, although they pay a bit more than most competitors in the developed coutnries.

In one respect, though, indexed gilts have failed to live up to their supposed promise. It was thought that the gap between indexed and conventional yields would provide a temperature chart of the market's inflationary expectations. In the event, it seems that the market forecasts the way a picnicker does – by looking out of the window. The gap has tracked current inflation faithfully, but has no forecasting value at all. Unfortunately, this is precisely the merit which has attracted Mr Hetzel to the idea – he thinks it would give a valuable steer on monetary policy. No such luck, in London, anyway; but the other advantages are surely worth attention.

EC blocks £100m regional aid until UK details spending plans

By **David Gardner** in Brussels

THE European Commission is withholding £100m ($169m) in grants for British coal mining communities until the UK government explains how it is using EC regional aid.

This is the first time that Brussels has blocked transfers from its structural funds, the EC's second largest budget after farm spending. The funds, intended to boost development in backward and industrially declining regions, were doubled to Ecu63bn ($73.7bn) for 1989-93, of which the UK was allocated Ecu3.9bn.

The £100m, aimed at regenerating former mining areas under the EC's Ecu300m Rechar programme, has been awaiting signature in Brussels since January.

The UK, some of whose ministers have privately criticised the Commission's administration of the structural funds as wasteful, has been singled out because its disbursement of the aid has not been "transparent", Commission officials say.

London questions the Commission's principle of "additionality" – that EC funds should supplement central or local government commitments to the projects selected. EC officials say the aid "goes into a Whitehall pot, which makes it difficult for us to see that our money is getting to where it's aimed." The funding thereby "loses its deliberately discriminatory effect", which is to help poorer regions catch up with richer areas.

Mr Bruce Millan, EC commissioner for regional policy and former Scottish secretary last week met three UK ministers including Mr Peter Lilley, trade and industry secretary, to seek a solution. Commission officials say his questions were not answered but that the UK had "agreed to produce the factual information we asked for some time ago".

The British government contends that additionality does not apply because the UK's allocation from the structural funds was not increased when they were doubled in 1988, and there was no such requirement under the previous regional aid system. However, the Commission complains that, first, the UK does not supply "base figures to which we can see our money being added", and second, that it uses EC aid to spread its own spending on the regions more evenly.

"We do have some evidence from the user end that the money is not getting through in its entirety ... that they even it out, keeping money spare for other regions," a senior Brussels official said.

The UK case sets a precedent for all member states, since there was no explicit sanction for misuse of aid written in when the structural funds were reformed in 1988.

British political parties converge on tax policies ahead of local elections

By **Ralph Atkins** in London

MR NEIL KINNOCK, the British opposition Labour party leader, showed yesterday how the country's two main political parties have converged, by ruling out tax increases for health service improvements and identifying with many of the policy goals set by Conservative prime minister Mr John Major.

Differences between Labour and the government centred largely on "the seriousness of the approach," Mr Kinnock said. But he attacked the Conservatives for wanting both better public services and a cut in income tax to 20p.

Labour's would not cut income taxes but nor would the party increase them for the "vast majority" of people. He would not add to the already high economic burden on households. "There is no economic benefit in it and it could discourage effort."

Extra spending on the health service would have to come from economic growth, Mr Kinnock said.

Mr Kinnock conceded that many Conservatives – including the prime minister – would like a "free society of opportunity", a clean country and a competitive economy. "The difference is that for us it is not enough to describe those ends but to commit practical means of doing it."

He wanted Conservatives judged on their record on the economy, the health service and the poll tax. Labour was a party that had "learnt from past mistakes".

As campaigning for the local elections intensifies ahead of polling on Thursday, the Conservative and Labour parties are neck and next in opinion polls.

Mr Major yesterday expressed confidence that the new "council tax" would prove long-lasting – betraying hopes within the party that last week's announcements will help Tory candidates on Thursday.

"We now have a system that will endure, that will be acceptable and that will enable local government to raise its resources," the prime minister said on TV-am.

Mr Kinnock used his television interview to set out his vision of "democratic socialism". It required the state and the community, "to get itself organised" in advancing "the fulfilment of the individual".

Labour did not see "instantaneous push-button answers" to the problems of many essential services. "We will not put false prospects before the people of this country, saying you can have it all at the same time," Mr Kinnock said.

But Mr Chris Patten, Conservative party chairman, sought to draw political capital from Mr Kinnock's admission that the 25p basic rate of income tax would stand. But he accused Labour of making "wild spending promises".

Mr Paddy Ashdown, leader of the centre party Liberal Democrats, said: "It is now clear that there is no significant difference between what Mr Major and Mr Kinnock intend to offer at the next election."

● Conflicting opinion polls suggest that neither the Labour party nor the Conservative party has a clear lead ahead of Thursday's local elections, but the Tories have received some cheer about the effect of the new council tax.

Details, Page 7

EC backs police plan

Continued from Page 1

mission and we are talking with camp officials about humanitarian issues and will introduce ourselves to the Iraqis in Zakho."

Mr Poos also addressed the question of reported human rights abuses in Kuwait. The EC Presidency had already complained to Kuwait about abuses and would do so again next week when Kuwait and other gulf states negotiate with the EC on trade he said. Mr Hurd also said he would press European concerns when he visits Kuwait later this week.

Interest rates dispute

Continued from Page 1

Mr Waigel pointed out that Germany had already taken steps to improve its policy mix with its plans to raise taxes. Although Germany was running a budget deficit of around 5 per cent of gross national product to finance German union, this would decline to 3 per cent of GNP or less by 1994 and was, unlike the US and Italian deficits, not a structural problem.

Germany was also acting as a strong motor for global growth with imports up by 18 per cent on an annual basis in the first two months of this year against a near 4 per cent drop in German exports.

There were the first signs of improved business expectations in eastern Germany, Mr Waigel said.

Mr Waigel said that there were far more points in common between the US and Germany than separated the two countries. While interest rates played a role in determining growth, other factors such as national savings rates were important, he said.

Mr Lamont meanwhile met the Saudi minister of finance, Mr Mohammad Abalkhail, to review developments in the Middle East following the Gulf war. Among the subjects discussed was the Saudi contribution to Britain's war costs.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	13	55	Berlin	C	7	45	Caracas	C	30	86	Faro	C	15	59	Islamabad	C	26	79
Algiers	C	13	55	Biarritz	R	8	46	Casablanca	C	16	61	Florence		–	–	Istanbul	F	14	57
Amsterdam	S	13	55	Bombay	S	32	90	Chicago	S	11	52	Frankfurt	F	13	55	Jakarta	R	32	90
Athens	S	19	66	Bordeaux	C	11	52	Cologne	F	14	57	Geneva	C	11	52	Jersey	S	13	55
Bahrain	S	33	91	Boulogne	F	14	57	Copenhagen	F	7	45	Gibraltar	S	17	63	Johannesburg	S	22	72
Bangkok	F	35	95	Brussels	S	13	55	Corfu	S	16	61	Glasgow	S	14	57	Lima	–	–	–
Barcelona	F	13	63	Budapest	C	12	54	Dallas	C	21	70	Helsinki	S	12	54	Lisbon	C	13	55
Beirut	S	22	72	Buenos Aires	C	24	75	Dublin	S	11	52	Hong Kong	S	28	82	London	F	15	59
Belfast	S	13	55	Cairo	R	22	72	Dubrovnik	S	15	59	Innsbruck	S	13	55	Los Angeles	F	12	54
Belgrade	F	15	59	Cape Town	S	22	72	Edinburgh	S	13	55	Inverness	S	12	54	Luxembourg	F	13	55

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	C	17	63	Milan	*	–	–	Nicosia	S	26	79	Salzburg	S	15	59	Tenerife			
Madrid	F	12	54	Montreal	S	11	52	Oporto	C	13	55	San Francisco	F	10	50	Tokyo	C	22	72
Majorca	F	15	59	Moscow	F	9	48	Oslo	F	10	50	Seoul	S	21	70	Toronto			
Malaga	S	17	63	Munich	F	13	55	Paris	C	15	59	Singapore	F	29	84	Tunis	F	18	64
Malta		–	–	Nairobi	C	25	77	Peking	S	20	68	Stockholm	C	7	44	Valencia			
Manchester	S	13	55	Naples		–	–	Prague				Strasbourg				Venice	*	–	–
Manila	C	29	85	Nassau	C	31	87	Reykjavik	Sl	3	37	Sydney	C	20	68	Vienna			
Melbourne	C	16	61	New Delhi	S	35	95	Rhodes				Taipei	F	24	75	Warsaw	F	11	52
Mexico City	C	30	86	New York	S	12	54	Rio de Janeiro	–	–	–	Tangier	C	15	59	Washington	F	14	57
Miami	F	24	75	Nice				Rome	R	12	54	Tel Aviv	F	21	70	Zurich			

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES

COMPANIES & MARKETS

Monday April 29 1991

INSIDE

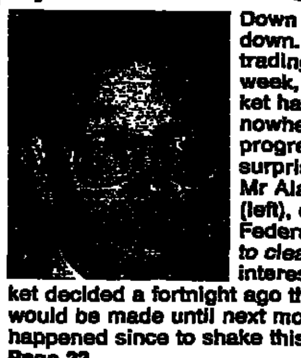
Mirror Group float price set at 125p

Shares in Robert Maxwell's Mirror Group Newspapers will cost 125p each when the company is floated later next month. The yield, however, has yet to be finalised. Mixed views in the investment community mean that a higher than expected yield is likely, say flotation advisers. Danny Green reports. Page 20

AG-Amev goes Ecu

AG-Amev, the financial services group, unveiled a 4 per cent rise in net profit for 1990. The group — formed last year by combining Belgium's largest and the Netherlands' third biggest insurers — has drawn up its balance sheet in European currency units to celebrate what it claims is the first full EC merger in financial services. Page 21

Ups and downs of US bonds



Down and up, up and down. By the end of five trading sessions last week, the US bond market had gone precisely nowhere. Such lack of progress is scarcely a surprise as remarks by Mr Alan Greenspan (left), chairman of the Federal Reserve, failed *to clear the air over* interest rates. The market decided a fortnight ago that no moves would be made until next month, and little has happened since to shake this conviction. Page 22

Noranda sells assets to cut debt

Cutting debt is the priority at Noranda, Canada's biggest resource group. The company is *selling almost C$500m-worth of assets to control* its C$4.4bn ($3.8bn) long-term debts. Alcatel Cable has already agreed to buy Noranda's wire and cable subsidiary, with a book value of C$220m. Page 21

Rights issue fatigue

The sharp drop in the share prices of Alfred McAlpine and YJ Lovell at the end of last week indicates that rights issue fatigue may finally *have caught up with the UK construction sector*. Page 20

Allied-Lyons chiefs to step down

By Andrew Bolger in London

THE chairman and chief executive of Allied-Lyons will this week announce their early retirement, only a month after the UK drinks group announced it had lost £150m ($253.5m) on foreign exchange dealings.

Sir Derrick Holden-Brown, 68, was due to step down as chairman next year, along with his chief executive, Mr Richard Martin, 58, but both are now expected to leave at the group's annual meeting in July.

Sir Derrick will be replaced by Mr Michael Jackaman, 55, currently vice-chairman. The man expected to take over from Mr Martin is Mr Anthony Hales, 42, chief executive of Allied-Lyons' food division, J. Lyons.

A report by the group's auditors, KPMG Peat Marwick McLintock, into the foreign exchange losses will be ready shortly. Allied-Lyons is anxious to clear the air by the time its annual results are announced on May 14.

The drinks group's treasury department was speculating on the continuing decline of the dollar, rather than just hedging to protect dollar earnings. The group was both writing call options on the US currency and selling dollars short against the dollar in the cash market. It was caught out when the dollar rose sharply from early February onwards.

Mr Clifford Hatch, 49, resigned as finance director in March, when the losses were announced. The group said Mr Hatch, who had been tipped as a future chief executive, felt he had to go because he was head of the department responsible for the losses.

However, the Bank of England had expressed concern some months earlier to Allied-Lyons about its aggressive dealing. Such a high-level warning is unlikely to have been directed solely at Mr Hatch, which may explain the early departures of Sir Derrick and Mr Martin.

Allied-Lyons shares closed at 520p on Friday. This was down 29p since the group announced on March 19 that it would take the foreign exchange loss as an exceptional provision in its results for the year to March 2.

Last year Allied-Lyons made pre-tax profits of £565m on turnover of £4.7bn.

The drinks group's brands include Tetley bitter, Skol Lager, and Teacher's whisky.

Allied-Lyons had been looking at a plan to merge its brewing operations with Whitbread, but talks have been suspended.

Race is on to be first with the big picture

Michael Skapinker and Raymond Snoddy look at high definition TV

Tune in for the next instalment in the saga of TV – the high definition image

For the world's consumer electronics manufacturers, nothing is more important *than the race to develop* large television screens with sparkling clear pictures.

For the Japanese, high definition television (HDTV) is an opportunity to consolidate their lead in consumer electronics. For the Americans, it is a chance to get back into an industry they have virtually abandoned.

For Thomson Consumer Electronics (TCE) of France and Philips of the Netherlands, Europe's largest consumer electronics companies, wide-screen HDTV is the key to their future viability.

The European Commission is reported to be close to agreement with industrialists and broadcasters on a common standard for clearer television pictures. If the accord, making the D2-Mac standard compulsory for all European satellite broadcasters, is endorsed by EC telecommunications ministers on June 3, Thomson and Philips will have won a substantial political victory.

Whether they can translate their gain into commercial success is more doubtful. It is one thing to force satellite broadcasters to adhere to a particular standard. It is another to persuade viewers that it is worth paying extra for the clearer pictures. British Satellite Broadcasting, which last year merged with Sky Television to create British Sky Broadcasting, largely failed to persuade the UK public of the virtues of its D-Mac system, the British version of D2-Mac.

The D2-Mac standard, Europe's preferred route, could, in any event, soon be surpassed technologically by research in the US. The US Federal Communications *Commission* has chosen six candidates to compete to create a high definition standard. It is likely that they will opt for an entirely digital system. The D2-Mac system is partially analogue.

TCE and Philips both desperately need a successful consumer electronics product. TCE's net losses more than quadrupled last year to FFr680m ($114.28m).

Philips, although financially troubled, is in a slightly different position. The Dutch group, Europe's largest electronics company, last year declared a record net loss of Fl 4.2bn ($2.11bn). Its consumer electronics division, however, was its only successful performer. Partly boosted by last year's World Cup, which stimulated sales of television sets and video cassette recorders, the division's profits rose 32 per cent to Fl 1.7bn.

Given the weakness of its computer, semiconductor and lighting divisions, it is essential for Philips that its consumer electronics activities continue to show that sort of progress.

The company does have a few other products on the cards. Next year it will launch the digital compact cassette (DCC), a high fidelity tape system.

High definition television, however, remains its most important consumer electronics project. Both Philips and Thomson have received generous financial backing from their governments for HDTV research, based on the Mac system.

A 1986 European Community directive required all satellite broadcasters to use the Mac system. The thinking behind the directive was that satellite broadcasters would begin with either D-Mac, to be used in Britain, or with D2-Mac, the system chosen by the rest of Europe. D-Mac and D2-Mac are not fully-fledged high definition systems, but they do provide clearer pictures than those currently available in Europe. Eventually, it was hoped that broadcasters would move on to HD-Mac, Europe's own high definition system.

The directive expires at the end of the year and a new one will take its place. Thomson and Philips have demanded that the new directive should make D2-Mac compulsory for all satellite broadcasters. Companies such as British Sky Broadcasting have so far evaded the directive by broadcasting from Astra, officially classified as a telecommunications, rather than a television, satellite. The Commission has been talking to BSkyB about the possibility of broadcasting simultaneously in D2-Mac and Pal, the conventional UK television system which it uses at the moment.

Thomson and Philips say that the development of fully digital television in the US will not affect plans. Such a system, they say, will not be viable until after the turn of the century.

The US system would have the advantage, however, of being suitable for broadcast by satellite, cable and ordinary terrestrial transmission.

Mr Dermot Nolan, a consultant for accountants Coopers & Lybrand Deloitte, said in a recent HDTV study that this would mean US manufacturers would have access to the entire broadcasting marketplace – in contrast to both the Europeans and the Japanese, who were concentrating on satellite only.

Mac, Mr Nolan believes, is an isolationist technology designed mainly to keep out the Japanese. "Without a radical re-positioning of the European HDTV strategy, European high definition will not materialise as a successful proposition and the future will belong to American digital HDTV and Japanese companies licensing the technology from US vendors," Mr Nolan argues.

The concentration on satellite broadcasting as the route to HDTV also raises the problem that most Europeans will continue to receive only ground-based broadcasts.

By the end of 1990, 1.8m European homes had satellite dishes – only 1.3 per cent of the total. According to Zenith Media Worldwide, part of Saatchi & Saatchi, this figure will grow to about 28m homes by 2000, still only 17 per cent.

Instead of simply concentrating on D2-Mac, the British Department of Trade and Industry is arguing for a twin approach: Mac as the preferred standard for satellite television, but with no compulsion for Pal users such as BSkyB, and the development of an improved Pal system for use on terrestrial television.

The government has decided to fund a Pal research project under the Eureka high technology programme, involving the BBC in Britain and ZDF, the German network. Granada Television and ARD of Germany might also join.

This research could eventually provide wide-screen, better quality television for everyone. Philips and Thomson will be hoping that, in the meantime, they can create a large market for D2-Mac.

Granada holders urge shift at top

By Raymond Snoddy in London

INSTITUTIONAL shareholders in Granada, the television, *leisure* and computer services group, have warned the company that top-level management changes are needed before a planned £150m ($253.5m) rights issue can go ahead.

In particular, the position of Mr Derek Lewis, the company's chief executive, is under threat. He was told yesterday that shareholders and the group's merchant bank, SG Warburg, believe the changes must accompany the rights issue.

Non-executive directors, such as Mr Peter Davis, chairman and chief executive of Reed International, and Mr Alan Clements, former ICI finance director, are understood to want Mr Lewis to go.

Granada is planning the rights issue and substantial disposals – which could amount to as much as £200m – to cut its heavy debt. This stood at £436m at the end of last year, apart from the off-balance sheet commitment to British Sky Broadcasting, the *satellite* TV venture.

On Friday, Reed announced that it would not put any more money into BSkyB, a consortium in which Pearson, publisher of the Financial Times, has a stake.

Granada's bingo business, which has been doing well despite the recession, is a possible candidate to be sold off.

The problems come at the worst possible time for Granada, which must submit its financial bid on May 15 to retain its north-west commercial television licence.

Apart from recession, Granada has been affected by several doubtful diversifications over the past few years, including moves into electronic retail and travel. The company also invested about £200m in computer services, which have not yet produced significant profits. Granada has also committed more than £130m to BSkyB.

Group pre-tax profits last year fell from £164.1m to £121m and analysts are expecting something closer to £80m this year. From a 1989 peak of £4, shares now stand at 195p.

If there had been time to complete a successful disposal programme, Mr Lewis's chance of survival would have been higher, at least in the medium term.

Mr Lewis was closely identified with Granada's involvement in BSkyB and the move into computer services, although both policies had the backing of the company's board.

Economics Notebook

G7 winces as Brady revives a bad memory

POLITICIANS are blessed with short memories.

For how else can one explain the insistence of Mr Nicholas Brady, the US Treasury secretary, *that Germany should* reduce its interest rates?

The days leading up to yesterday's Washington meeting of officials from the Group of Seven leading industrial countries have been horribly reminiscent of events around the time of the 1987 annual meeting of the International Monetary Fund and World Bank.

A similar row then between Germany and the US over high German interest rates unsettled financial markets and helped pave the way for the October 1987 stock market crash.

However, last week's exchanges between the US Treasury and the German authorities may not be so threatening as the 1987 row. Mr Brady, even when he says unpalatable things, is a model of US old-money courtesy. And despite last week's 53.21 point drop in the Dow Jones industrial average, current stock market values are not so exaggeratedly high as at that time.

But the US Treasury's high profile campaign for lower rates has unsettled officials from the other G7 countries who are dismayed at the way in which Mr Brady has broken the group's unwritten rule of verbal discipline.

To understand Mr Brady's action it is necessary to look at the G7 through a political prism.

The differences between the US and Germany focus on domestic politics rather than economic theories. They are a useful reminder that high-flown talk of international policy co-ordination counts for little when a politician's survival is at stake.

The politician in question is President George Bush, who does not face re-election until late next year, but is sufficiently concerned about the US recession to push hard for growth. It is Mr Brady's job to deliver that growth for his president.

The approach of yesterday's G7 meeting has, therefore, seen the US expressing dark fears about global capital needs and high real interest rates, especially in Europe, while ignoring the advice of institutions such as the International Monetary Fund about how best to combat these perils.

Whereas the IMF has urged tough fiscal policies on deficit countries such as the US to *rebuild national savings*, Washington has called instead for lower interest rates.

The political impossibility of the US getting to grips with its budget deficit or raising taxes to boost national savings explains its use of the interest rate argument.

Its demands have allowed the US administration to demonstrate that it is doing something to help recession-hit businesses and families through pressure on the Federal Reserve and other central banks to ease policy.

But not only is the policy risky in terms of financial markets, it is also unlikely to succeed. Mr Theo Waigel, the German finance minister, will have the recent defeat of the German Christian Democrat Party in the Rhineland Palatinate election firmly in his mind. That defeat was a revolt by an electorate that is having to pay more taxes for German unification.

Mr Waigel, like Mr Brady, cannot take fiscal action to lower interest rates. Behind him stands the powerful figure of Mr Karl Otto Pöhl, the Bundesbank president, who is not going to compromise the central bank's counter-inflation stance. Mr Pöhl also rejects the US argument that easier money would ease a global savings shortage.

Looking further ahead, Mr Pöhl will not want to compromise his plan for an independent European central bank by demonstrating that the Bundesbank can bend to political pressure.

It remains to be seen whether the differences over interest rates blow over or whether they will upset the financial markets.

But the controversy has brought to mind the ad hoc nature of the G7 and how difficult it is to co-ordinate policies.

****

Political considerations of a different sort seem to lie behind Japan's sudden decision to support a new allocation of *Special Drawing Rights* (SDR). This is the reserve asset issued and managed by the International Monetary Fund.

An SDR allocation has long been supported by many developing countries and a few industrialised nations, such as France, to provide financial resources to the Third World.

But the more powerful IMF members, including the US, Britain and Germany, have considered such ideas for pumping additional reserve assets into the global economy as unnecessary.

They argue that there is no shortage of liquidity in the world. Money is available, although expensive.

To allocate SDRs – a basket currency made up of the US dollar, Japanese yen, D-Mark, sterling and French franc – would do nothing to reduce the cost of international funds, as they cost interest. Because SDRs are allocated unconditionally, an issue could damage efforts to ensure that financial support for Third World countries is linked to economic policy conditions.

So why has Japan stuck its neck out in favour of such a move? One thought is that the proposal could deflect pressure on Japan to take on more of the financial burden of creating a new post-Gulf war world.

According to the IMF World Economic Outlook, Japan will be the only G7 country to run a substantial current account surplus this year.

In view of large demands for capital in eastern Europe, the Middle East and Latin America, Japan could find itself under increasing pressure, *from the US among others, to* contribute more financial support to the global economy.

The Japanese plan has also put Mr Michel Camdessus, the IMF managing director, in something of a pickle. He has welcomed the move, not least because one of the objectives of the IMF is to promote the SDR.

But Mr Camdessus would like to see any additional resources targeted on needy countries rather than distributed to all IMF members.

There are also fears that an SDR allocation could hinder ratification of last year's agreement to boost IMF resources through a 50 per cent increase in the Fund's quotas or membership subscriptions.

Ever the diplomat, Mr Camdessus has already indicated how he expects to resolve this dilemma. He has called for an in-depth study of the SDR.

This could delay Japan's plans and result in a reserve asset that differs considerably from the present SDR.

Peter Norman

Tootal forecasts 40% rise

By Andrew Bolger in London

TOOTAL Group has issued a profits *forecast* which it says demonstrates conclusively that the £194m ($327.86m) hostile bid from textiles rival Coats Viyella seriously undervalues the company.

Tootal is forecasting a 40 per cent increase in pre-tax profits to about £32.5m in the year to January 31 1992. It also expects earnings per share will be about 8p, an increase of 90 per cent, because of a much lower tax charge than last year.

Mr John Craven, chairman, said: "Our profit forecast and the specific projects which will benefit profitability next year are evidence of the transformation which has taken place in Tootal."

The stock market now expects Coats, which already owns 29.4 per cent of Tootal, to increase its original cash offer of 65p per share. Tootal shares closed on Friday 1p up at 77p. Coats shares were 2p higher at 142p.

Most of the improvement in Tootal's results is expected to come from the UK after action to eliminate losses, reduce overheads and improve cash management.

Last year's tax charge was pushed up to 44.4 per cent by a large amount of unrelieved Advanced Corporation Tax. However, Tootal forecasts that *tax in the current* year will be only 25.5 per cent.

Mr Craven said: "Coats' offer woefully undervalues Tootal's prospects, representing only 7.8 times Tootal's forecast earnings."

Coats countered that the forecast tax charge was exceptionally low and it did not believe that Tootal could sustain *this* level *in future* years.

COMPANIES AND FINANCE

MGN flotation price set at 125p per share

By Daniel Green

SHARES IN Mr Robert Maxwell's Mirror Group Newspapers will cost 125p each when the company is floated later next month. The yield, howver, has yet to be finalised.

The flotation price will be revealed officially tomorrow morning and the minimum outlay will be about £250, a level set to encourage the small investor.

The yield is likely to be between 6.5 and 6.7 per cent, compared with a market average of 4.8 per cent, and 8.4 per cent for shares in Maxwell Communication Corporation – also controlled by Mr Maxwell.

Flotation advisers say the mixed views in the investment community on Mr Maxwell's management style mean they must set a higher yield, to the tune of about half a percentage point, than might otherwise be expected. At the same time they argue that without Mr Maxwell the company would be making less money and thus command a lower total price.

The prospectus will be distributed to institutions on May 2. It will argue that Mirror Group is both defensive, because two-thirds of its income comes from circulation rather than more volatile advertising revenue, and well-placed to take advantage of the recovery from recession as advertising picks up.

Both Mr Maxwell and his advisers want the shares to show a significant premium when dealings start on May 21, and the yield will be set to try to ensure this.

Morale in the flotation team has been helped by research conducted on Friday and Saturday among readers of Mirror Group Newspapers by AGB, a market research company owned by MCC. Details of AGB's findings were not made available yesterday.

In addition, the securities house in charge of the US side of the operation, Salomon Brothers, has asked for an increase in its one-third allocation of stock. The proportion it receives is likely to rise to 35 per cent.

About a third of the shares has been earmarked for the UK private investor, with UK institutions getting another third and the remainder going overseas.

Before the official announcement of the flotation price Midland Montagu, the merchant banker, and broker Smith New Court intend to put in place the underwriters of the issue.

The prospectus will also be available from some branches of Lloyds Bank and the Bank of Scotland and be advertised on Friday in some UK newspapers.

The sale of 48 per cent of Mirror Group is intended to raise £240-£270m. Most of the money will go towards reorganising Mirror Group's debts.

An insatiable demand for new paper

Maggie Urry and Andrew Taylor on the recent spate of cash calls on shareholders

THE SPATE of rights issues in the UK equity market since the start of March seems to show no sign of abating. So far this year £3bn has been raised, but despite the cash calls the FT-SE 100 index has risen by more than 15 per cent.

With the stock market having already reached some equity strategists' forecasts for the end of the year, the continued demand from companies for new equity might be expected to put a damper on share prices.

However, the amount of cash raised through rights issues is not surprising – although it is already nearing the £4bn raised in 1990 and exceeds the £3bn total for 1989.

At the start of the year, for example, UBS Phillips & Drew, the stockbroker, was expecting £6bn to be asked for during the year. County NatWest was predicting that issues would total £20bn over 1991 and 1992. So £3bn in four months is a not an unexpected amount.

On the other hand, Nomura, the securities house, suggests the market had also been looking for some big takeover bids to put some of the cash back into the stock market.

So far nothing sizeable has been seen, and if some big bids do not appear soon the market could become nervous.

Nonetheless, the supply/demand balance does not seem to be a problem. Institutional liquidity, which was unusually high at the end of last year, has fallen to a more normal level and no lower. Investors are not short of cash to invest in rights issues – or in government sales of gilts and its BT shares – if they think there is a case for putting money into the market at all.

Since companies are making rights issues to take advantage of the high level of the market, should the market fall or the take-up of shares by investors slacken, the number of issues ought to dry up.

Equity strategists do not expect the rights issues to trigger a fall in the market, although there have been famous occasions when one big issue coming on top of a stream of lesser calls has cracked the market – such as Hanson's £519m rights in June 1985 and National Westminster Bank's £714m call in May 1986. So long as the issues are from companies which investors regard as worthy, and issuers do not get greedy on price, there appears to be demand for new paper.

It is the institutions' propensity to invest rather than the weight of cash calls that could cause problems for the stock market.

If investors began to worry about fundamental concerns such as the economic recovery, interest rates and inflation, sterling and the trade balance, and the looming general election, then they could resist future rights issues.

A bout of indigestion in the construction sector

THE SHARP drop in the share prices of Alfred McAlpine and YJ Lovell at the end of last week indicates that rights issue fatigue may finally have caught up with the construction sector.

Lovell's share price tumbled by 18.5 per cent to 145p on Thursday after the group announced a two-for-five cash call to raise £30m. The shares closed at 143p on Friday.

McAlpine, equally, got short shrift from the market on Friday. Its share price fell by almost a tenth to 258p after the group announced a one-for-two rights issue to raise £38.8m.

Both groups are currently trading below their theoretical ex-rights price. The fall in Lovell's share price will have been exacerbated by a warning from the group that it will have to make substantial extra provision against some of its developments.

Institutional investors, however, have every right to be suffering from indigestion given the large amounts of paper which construction, building materials and property groups have sought to issue this year.

Since the beginning of January these companies have announced 16 separate rights issues worth more than £1bn. They account for a third of the £3bn all types of companies have attempted to raise from rights issues this year.

Construction companies, most of them heavily involved in housebuilding and property development, have justified their fund-raising by saying they need the cash to prepare for the next upturn – particularly in the housing market which is expected to lead the sector out of recession.

The weakness in the commercial and residential property markets, they say, will allow them to take advantage of distressed sales and pick up some bargains.

These seem more likely to arise in the commercial, rather than the housing, market where there has been a surprising shortage of cheap quality land coming onto the market in spite of the recession.

Nonetheless, many builders need to replenish their housing landbanks as sales have started to pick up.

Mr Graeme Odgers, McAlpine's chief executive, says: "There may be no outright bargains about but housing land is still cheaper than it was two years ago."

Another reason for a rights issue is to reduce the large debts builders raised when the residential and commercial property markets were at their height. Alfred McAlpine fits into this category with average borrowings of £80m – equivalent to more than 60 per cent of net assets at the end of October last year.

The classic property play at the bottom of the investment cycle, when prices are at their lowest, is to raise debt rather than equity to finance new purchases – as any home owner with a mortgage knows.

It is arguable that less highly-geared companies such as Taylor Woodrow, which last week announced a one-for-four rights issue to raise £162.4m, should have increased borrowings rather than turned to their shareholders for finance.

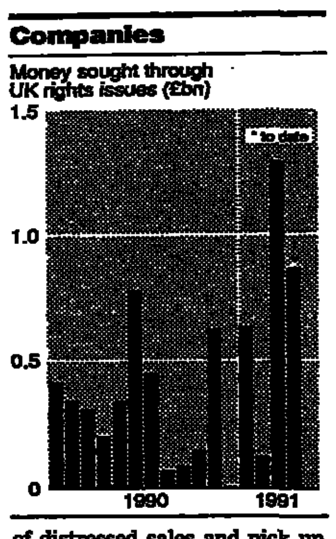
Mr Peter Drew, chairman of Taylor Woodrow, responds that he would rather have equity than raise debt at current rates of interest.

The big share price rises enjoyed by construction companies earlier this year has allowed them to take advantage of the market to hold a rights issue.

The problem of McAlpine and YJ Lovell is that they have come at the end of the queue at a time when the market is questioning how quickly a recovery in house sales will show through in improved profits.

Companies

Money sought through UK rights issues (£bn)



CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Cepsa (Spain)	Ertoil (Spain)	Oil refining	£209m	France's Elf sells, raises Cepsa stake
Suzuki (Japan) Autokonszern (Hungary)/ C Itoh (Japan)/IFC	Magyar Suzuki (JV)	Car manufacture	£74m	Japanese first in Eastern Europe
BHA (Spain)/Commerzbank (Germany)	Hispano Commerzbank (JV)	Banking	£9.3m	Gibraltar banking op
Nippon Sheet Glass (Japan)	Pilkington Reinforcements (UK)	Glass fibre processing	£7.4m	Pilkington progresses reorganisation
Ryan Hotels (Ireland)	Carat Hotel (Germany)	Hotels	£5.5m	Ryan's third buy in Europe
Gardner Merchant (UK)	Rowland Commerical Catering (Australia)	Contract catering	£2.6m	Gardner No 2 in Australia
Aegon (Holland)	Precam (Belgium)	Insurance	N/A	Aegon bolsters Belgium presence
Siemens (Germany)/GPT (UK)	GPT Communications Systems (JV)	Telecoms equipment	N/A	Needs OFT approval
CDME (France)	STC - Distributors (UK)	Electrical wholesaling	N/A	CDME enters UK
Euromoney Publications (UK)	PREP Institute (US)	Consulting services	£0.95m	Euromoney lifts growth

Source: FT Mergers & Acquisitions International

The French were the most notable investors abroad last week, writes Brian Bollen.

Elf Aquitaine is raising its stake in Spanish oil refiner Cepsa, becoming the company's second largest shareholder. This is part of the deal which sees Cepsa buy its smallest domestic competitor, Ertoil, from Elf.

The sale by US defence electronics group Loral of 49 per cent of its satellite business to Aerospatiale and Alcatel Espace, and Italy's Alenia, concludes an agreement made last October. The transaction, taken together with their joint purchase of Boeing's Canadian subsidiary, De Havilland, underlines the determination of Aerospatiale and Alenia to break into the US and the specialised satellite business.

Contributing to the boom in receiverships, French property group Actimo is buying Pascal, the Canadian hardware chain. Construction company Lyonnaise des Eaux-Dumez will see its stake in UK building group Alfred McAlpine double to 12 per cent as a result of McAlpine's 1-for-2 rights issue.

The realignment of interests in Europe's financial services sector continued with Dutch insurance group Aegon buying the 99 per cent of Belgian insurer Precam owned by France's Athena.

Joining the flow of western car makers into eastern Europe is Suzuki of Japan. Its 40 per cent stake in the joint venture Magyar Suzuki will make it the first Japanese car manufacturer to assemble cars in the region.

The sale of Pilkington Reinforcements to Nippon Sheet Glass of Japan is part of the Pilkington group's reorganisation strategy, which involves the disposal of non-core assets and the elimination of loss-making operations.

British Nuclear Fuels improves 17% to £145m

By Deborah Hargreaves

BRITISH Nuclear Fuels returned profits of £145m pre-tax for the 1989-90 year, an improvement of 17 per cent over the previous year's £124m. Turnover pushed ahead by 14 per cent to £1.04bn.

Mr Christopher Harding, chairman, said the publication of the company's results had been delayed by the continuing negotiations with its two main UK customers, Nuclear Electric and Scottish Nuclear, over new fixed price contracts for fuel services.

These discussions had been held up by the government's decision to keep the nuclear industry out of the electricity privatisation programme.

Mr Harding said BNFL's prospects for expansion were mainly in the export business. He pointed to orders worth some £800m from German utilities for reprocessing fuel at BNFL's thermal oxide reprocessing plant.

He said the company was now looking for new business opportunities in eastern and central Europe.

"There is great scope for the application of advanced radioactive waste management and decommissioning techniques."

Tace to buy out minority in Goring arm

By Jane Fuller

TACE, the environmental control equipment group where a revolt by institutions removed founder chairman Mr Jock Mackenzie, is proposing to buy out the minority holding in its Goring Kerr subsidiary.

The offer is expected to be roughly six Tace shares for every five held by the owners of the outstanding 49 per cent in Kerr.

This assumes that the relationship between the two share prices is similar to Friday's close of 147p for Tace and 176p for Goring Kerr.

Mr David Wilson, Tace's finance director, said it was intended that the holders of Kerr shares would be no worse off. The proposals would also take account of Kerr's slightly higher dividend yield.

The benefits of bringing the two together included overhead cuts, the full use of tax allowances which would have saved £800,000 last year, the removal of obstacles to fund raising and a better use of group cash.

Mr Wilson said he hoped the reconstruction would not be held up by the "shennanigans" of Norwich Union, which has a 5 per cent stake. He said the UK mutual insurance group was the main backer of Mr Michael Beckett's candidacy for the chairmanship. Mr Beckett resigned on Wednesday from the board, which had preferred Sir David Nicholson.

The board had hoped that the institutions would have been placated by the departure of Mr Mackenzie, who with his family still has a 23 per cent stake, and the cutting of central costs.

£31m provisions leave Clayform £39m in loss

By Michiyo Nakamoto

CLAYFORM PROPERTIES, the property developer, saw a sharp reversal in its fortunes last year as the fall in property values necessitated heavy exceptional provisions against the group's development portfolio.

A pre-tax profit of £18.03m in 1989 turned into a loss of £39.14m in the year to December 31, largely as a result of £31.56m in provisions stemming from a reappraisal of the group's development portfolio.

The reappraisal resulted in a substantial write-down of the group's developments in Bristol, Cannon Street and Sheffield.

Turnover was up to £83.90m (£82.42m). The loss per share was 101.0p (earnings 36.7p) and net assets per share were halved to 201p (410p). No final dividend is recommended (6.5p) bringing the total for the year to 2p (10p).

"This country has been experiencing the worst property recession in my experience," commented Mr Bryan Burletson, chairman. Although the market now appears to have hit bottom, "I don't see any early rise," he said.

The group's borrowings, which shot up when Stead & Simpson was acquired for £120m in 1989, have been reduced from a year-end figure of £125m to £85m, chiefly through disposals, which, since January last year and through to after the year end, amounted to £30m.

A sharp fall in net assets, from £150.69m to £75.83m, however, means gearing was at 112 per cent.

Folkes restructures and lifts profits to over £4m

FOLKES GROUP, the property, engineering and building products group, lifted pre-tax profits by 12 per cent from £3.6m to £4.03m in 1990.

The result was achieved on lower turnover of £47.71m against £58.51m.

Mr Constantine Folkes, chairman, said the group had changed more significantly during the year than at any time in its history, enhancing its profit potential and its position in both open die forging and property.

The balance sheet remained strong.

Earnings improved to 7.49p (6.77p) and the recommended final dividend of 1.75p makes a total of 2.3p (2.05p).

DIVIDENDS ANNOUNCED

Bletchley Motor§ ......fin	3.75	-	3.75	7.85	7.5
Br Assets Trust ......int	1‡‡	July 8	0.95	-	3.85
Clayform Props ......fin	nil	-	6.5	2	10
Clayton Son & Co......fin	9.3†	May 23	9.3	11.8	11.5
Dean & Bowes ......fin	3.25†	June 6	3.25	6	6
Downiebrae ....fin	1	July 1	0.5	1	0.5
Expedier § ....fin	0.5	-	nil	1	nil
Flem'g Universal......fin	2.2	July 24	2.2	2.8	2.8
Guinness Mahon ......int	nil	-	0.8	-	1.45
Holt (Joseph) ....fin	23	June 21	19	31	26
Investors Cap ....int	1.25☆	June 7	1.2	-	4.85
London Finance ......fin	0.75	-	1.3	0.75	1.3
Nat Home Loans ......int	3.75	July 1	3.75	-	9
Porth Group ....fin	nil	-	3.2	0.5	4.5
Slingsby (HC) ....fin	5.5	July 3	5.5	7.5	7.5
TR Far East Inc ......int	1	July 1	1	-	4
Usborne ....fin	1	July 1	1	1.5	1.5
Walker (JO) ....fin	2	July 5	2	2	4

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ☆Second interim making 2.5p to date. ‡‡Second interim making 2p to date.

COMPANIES AND FINANCE

Europe finance venture turns in solid first results

By David Gardner in Brussels

AG-AMEV, the financial services group formed last year from the merger of Belgium's largest and the Netherlands' third biggest insurers, unveiled a 4 per cent rise in net profit for 1990.

This was measured against a *pro-forma* consolidated income statement prepared for 1989. The two companies finalised their link-up in December, to be retroactive to the beginning of 1990. Groupe AG and N.V. Amev each hold a 50 per cent share in the group.

To celebrate what it claims is the first full European Community merger in financial services, the group has drawn up its balance sheet in European currency units (Ecu).

It earned Ecu393m ($464m) last year on turnover of Ecu6.3bn, against profits of Ecu373m from Ecu6.2bn in 1989. The advance looks slightly better in Ecus than in Belgian francs, in which it would have been only 2 per cent.

Dividends, paid out separately – and in national currencies – were raised from BFr150 to BFr165 by AG and from Fl 2.65 to Fl 2.85 by Amev.

The group's co-chairman, Mr Maurice Lippens from AG, pointed out that, but for the weakness of the dollar, earnings would have risen by 5 per cent.

Results from the group's US operations – largely AMEV-provided – had, however, shown a high return on turnover, and there had been a significant advance in the Spanish car insurance market.

A black spot was the cost of last year's storm damage in western Europe, which cost the group Ecu20m in Belgium alone.

While consolidating its position in its core markets in Belgium and the Netherlands, AG-AMEV wants to reinforce its presence in Spain and the UK, and seek out new niches in the US.

Mr Lippens said that given the group's strong financial position he "could envisage important acquisitions".

AG is closely allied with Belgium's leading bank, Générale de Banque, as part of its 14 per cent holding in Société Générale de Belgique, the country's leading holding company. AMEV in 1989 merged with VSB, the largest Dutch savings bank.

Overseas sales help lift Stefanel to L36.1bn

By Haig Simonian in Milan

STEFANEL, the Italian clothing manufacturer, raised group net profits by 33.7 per cent to L36.1bn ($27.9m), thanks to a 41 per cent jump in sales to L434.2bn from L308bn in 1989.

The rise, which follows difficult years for Italy's second biggest casual clothing group after its flotation in October 1987, has prompted a L10 increase in the dividend to L140 a share.

However, the rises in both net earnings and the dividend remain below company predictions in November, when it said net profits would reach about L38bn for 1990, while the dividend would be L150.

In volume terms, sales last year rose to 12.8m items from 9.3m in 1989, with foreign markets playing an increasingly important role.

Stefanel has been particularly active in increasing its presence in eastern Europe, where it is represented in Hungary, Yugoslavia, Poland and Czechoslovakia.

It has also raised its profile in the Far East. This year, its Hong Kong-based subsidiary expects to have 100 units operating in the region, 60 of them in Japan.

According to Mr Giuseppe Stefanel, chairman and managing director, sales this year should rise to L480bn, and net group profits to L44bn.

Noranda in asset sale worth C$500m

By Robert Gibbens in Montreal

NORANDA, Canada's biggest resource group, is selling assets worth nearly C$500m to keep its consolidated long-term debts of C$4.4bn (US$3.8bn) under control, says chairman Mr Alfred Powis.

Some sales have been negotiated, including disposal of Noranda's wire and cable subsidiary, with a book value of C$220m, to Alcatel Cable, he said after the annual meeting in Toronto.

He would not reveal the price being paid by Alcatel, but said it would be above book value.

The total also includes about $100m of natural gas properties; half Noranda's holding in Cognos; a successful software company; and a 34 per cent interest in a western oil and gas exploration holding, with some smaller holdings.

"We don't need to sell anything else," Mr Powis said.

Noranda made a profit of C$15m on sales of $2.13bn in the first quarter. Nothing was attributable to the common stock after payment of preferred dividends. A year earlier it turned in profit of $59m on sales of $2.4bn.

The decline was due to a slump in the forest products subsidiaries and a strike at Noranda's zinc mining operations in New Brunswick.

● Royal Trustco, one of Canada's two biggest trust companies, returned to profit in the first quarter with earnings of C$39m, or 15 cents a share, against C$72m, or 40 cents, a year earlier.

In the final quarter of 1990, it posted a loss of C$251m, or C$2.17 a share, following write-downs on its European operations and portfolio investments.

Royal Trustco is the main financial services arm of the Toronto-based Brascan group. It said 1991 would be difficult, with a high level of non-performing loans, which totalled C$180m at March 31.

● The Federal government has moved to wind up Standard Trustco and sell its trust assets. The Canada Deposit Insurance Corp will then pay out C$1.5bn owed to more than 100,000 depositors.

A hearing into the winding-up application is due tomorrow in Ontario Supreme Court.

The Federal government seized the trust company's assets on 18 April and closed all 37 branches.

AIR CANADA SEEKS TO CANCEL BOEING ORDERS

AIR CANADA, caught by the international slump in air travel, has asked Boeing to cancel orders and options on a long list of aircraft, writes Robert Gibbens.

The airline, privatised two years ago before the onset of recession and the Gulf war, is asking Boeing to cancel orders on three 747-400s for first delivery in 1993 and is expected to seek cancellation of orders for six 767-300s and options on another 12.

Air Canada has been losing money for several successive quarters and has to cut back on its fleet renewal and expansion programme.

Dyno profit is slashed by more than half

By Karen Fossli in Oslo

DYNO INDUSTRIER, the Norwegian chemicals and explosives group, saw first-quarter profits, before year-end adjustments, more than halved to NKr46m ($6.7m) from NKr94m a year earlier.

Dyno said the main causes of the weak result were lower profits from stock market trading and increased development costs for one of its high-technology businesses. The Gulf war and US recession also had an impact on the result, it added.

Group turnover increased to NKr1.84bn from NKr1.64bn, while operating expenses, before depreciation, rose to NKr1.64bn from NKr1.44bn.

The explosives division saw operating profit fall to NKr56m from NKr65m. Dyno warned that its Australian company, which was being restructured, was still operating at a loss, although less than that of last year.

The chemicals division suffered a fall in operating profit to NKr35m from NKr50m on turnover up to NKr534m from NKr448m, mainly because of acquisitions. The plastics division saw no change in operating profit of NKr25m, but turnover rose to NKr434m from NKr335m, also because of acquisitions.

Dyno forecast an increase in demand and falling prices for most raw materials in 1991.

Recession hits steelmakers

DOFASCO, Canada's largest steelmaker, made a small profit in the first quarter, but its competitor, Stelco, continues in a precarious cash position with mounting losses, writes Robert Gibbens in Montreal.

Both companies have been badly hit by the recession and high steel imports from the US, and see little chance of a turnround in 1991.

In addition, Stelco is struggling to recover from the impact of a long strike last year.

Dofasco, with a large sheet business, recorded first-quarter earnings of C$11.2m (US$9.6m), or 7 cents a share, up 12 per cent from a year earlier on sales down 12.5 per cent at almost C$500m.

Stelco lost C$52m, or C$1.56 a share, against a loss of C$13m, or 48 cents, while sales dropped 42 per cent to C$370m.

The company is trying to negotiate higher bank credit lines.

Stelco has stopped paying common and preferred dividends and Dofasco has cut its quarterly rate from 32 cents to 20 cents a share. It wrote off its C$713m investment in Algoma Steel at the end of 1990.

Skanska advances 16%

SKANSKA, the largest construction and property company in Scandinavia, turned in 1990 profits before extraordinary income up 16 per cent to SKr2.37bn ($380m), in line with forecasts, writes John Burton in Stockholm.

However, the Swedish group predicted that profits in 1991 would drop back to the 1989 result of SKr2bn, reflecting a slowdown in the Nordic construction market.

It proposed that the dividend be increased by SKr1 to SKr6.25 per share. There would also be a stock dividend, in which shareholders would receive a bonus issue of one new share for each old share.

Sales increased by 25 per cent to SKr37.2bn, with sales outside Sweden accounting for SKr4.2bn. The order backlog at the end of 1990 totalled SKr31bn, up 7 per cent.

Although Skanska reported a 98 per cent occupancy rate for its properties in Sweden, it noted difficulties in leasing some US properties, as well as its Oslo City complex which it acquired in February.

Only 20 per cent of the Trinity Tower project in London, which will be completed this spring, has been leased or sold.

Mitsukoshi cautious despite 12.3% rise

By Robert Thomson in Tokyo

MITSUKOSHI, the Japanese department store operator, yesterday reported a 12.3 per cent increase in pre-tax profit to Y19.33bn in the year to the end of February. The company said demand for imported paintings and other luxury goods boosted sales.

This year, however, the group expects profit growth to increase only marginally.

Total sales rose 10 per cent to Y866.7bn ($6.24bn), with an 8 per cent increase in clothing sales, a 15.3 per cent increase in those of household articles and a 17.9 per cent rise in sales of sundry goods.

Japan's department store sales rose sharply early last year, but growth has been slower in recent months. Consumer confidence was affected by the Gulf crisis and by more general concerns about the slowing of Japanese economic growth.

Mitsukoshi expects pre-tax profit this year to rise only to Y19.4bn on sales of Y936bn.

Japanese department stores fear that consumer spending could slow if interest rates remain high and that purchasing power will be lessened by the relatively low wage increases won at the annual spring bargaining sessions.

● The Brazilian government has raised the share of steel group Usiminas held by Japanese group Nippon Usiminas from 4.65 to 12.88 per cent in preparation for the group's privatisation.

NRI TOKYO BOND INDEX

December 1983 = 100	25/4/91	Average yield† (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	154.00	7.12	154.10	152.75	145.63
Government Bonds	151.69	6.97	152.01	150.80	142.53
Municipal Bonds	155.79	7.23	155.77	155.59	147.91
Govt.-guaranteed Bonds	158.62	7.28	158.57	157.70	150.54
Bank Debentures	151.10	7.17	151.11	149.54	144.18
Corporate Bonds	157.07	7.38	156.65	154.09	147.84
Yen-denom. Foreign Bonds	161.45	7.93	161.20	157.61	150.48
Government 10-year†	6.65		6.57	6.50	7.26

† Estimated par yield

Source: Nomura Research Institute

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Bank's auction allays fears of flood

TWO FACTORS have emerged to dominate the gilts market. The pound has become collateral damage in the war between the dollar and the D-Mark; and it appears that public spending is running out of control again when the government is already committed to raising up to £1bn a month through gilts.

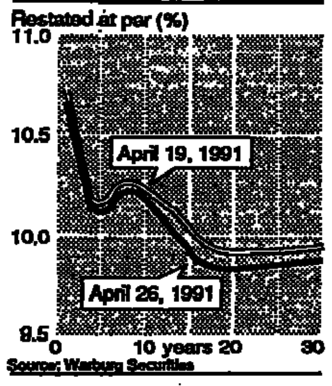
All this took place last week against the building suspense about exchange and interest rates at the Group of Seven meeting in Washington; the sudden angry eruptions about the "somewhat home-grown" recession by MPs of all persuasions and right-wing industrialists and company directors; and a highly-successful auction – four-and-a-half times subscribed – of £1.2bn of the 10 per cent Conversion stock due in 1996.

These singularly busy conditions set the tone for a week in which, surprisingly, the market rose right across the yield curve until late on Friday.

Then – much in the same way as a big Middle East sell order drove down the pound the day before – a large domestic sale took a point off prices of long-dated gilts.

The earlier springiness owed much to the outright success of the Bank of England's auction, which defied doomsters' predictions that an over-abundance of new gilts would flood the market and depress prices.

UK gilts yields



Source: Warburg Securities

Instead it proved, to the authorities' relief, that there remained an unsatisfied demand for gilts of up to £3.5bn after the auction. This suggested that the funding programme for the predicted £8bn public sector borrowing requirement (PSBR) in 1991-92 might go more smoothly than officials have dared to hope.

Although the auction eased technical concerns about the funding programme and investors' appetite for gilts, other anxieties started to build.

Sterling's weakness has kept the short end of the market on hold. Although talk of a sterling crisis was overdone last week, the pound started looking vulnerable to the dollar and even had sand kicked in its face by the D-Mark, the weakling of the foreign exchanges.

This has retarded hopes of interest rate cuts. Sterling last week slipped briefly to the bottom of its grid in the European exchange rate mechanism, perhaps causing a few grey hairs at the Bank of England.

The authorities have announced a pause in their efforts to bring down rates to give the pound the space to settle after the cuts from 14 to 12 per cent. This rules out more cuts for now, as sterling is not looking strong enough.

Diminishing prospects of cuts does, however, help the longer end. Mr Nigel Richardson, of Warburg Securities, says: "The longer base rates are kept up, the better the long end does, as the recession gets deeper and the prospects for lower underlying inflation improve."

Then there are the public spending worries, which are just as bad for sterling and gilts – and never absent for very long from the market.

As soon as Mr Norman Lamont, the chancellor, announced the PSBR forecast for this year, analysts started deriding it as too low. Even before the most recent shenanigans over the financing of local government, the chancellor's funding arithmetic was reckoned to be on the optimistic side.

Sterling bond analysts expect higher spending on unemployment – likely to top 2.3m this year – and other recession-induced outlays to enlarge the PSBR.

The Treasury last week said the £3.5bn reserve would be drawn down by £640m to finance higher pay for the armed forces, health service employees, employment training schemes and child benefit. But its public spending forecast of £205bn remained intact.

The actual PSBR outcome remains the subject of speculation. But today's research paper by Mr Simon Briscoe, of Greenwell Montagu, says there will be high levels of local authority borrowing for the next three years as the government attempts to minimise individual tax burdens while the authorities raise spending.

Although this could make the PSBR balloon, last week's auction suggests it might not shock the gilts market, which appears to be ready for more stock. The tap stock of 9 per cent due in 2008, priced two points higher than the market, could be snapped up quickly.

Rachel Johnson

US MONEY AND CREDIT

Bonds mark time as slide continues

DOWN A little; up a little. Up a little; down a little. Investors' attempts to read the economic runes continued unabated last week but, by the end of the five trading sessions, the US bond market had gone precisely nowhere.

On Friday evening, for example, the benchmark 30-year Treasury bond was yielding 8.21 per cent. That was only slightly different from the 8.24 per cent return offered by the same stock a week earlier.

Such lack of progress is scarcely a surprise. The market decided a fortnight ago that the authorities were unlikely to make any further moves on interest rates until the Federal Reserve's policy-forming Open Market Committee met again next month, and little has happened since to shake this conviction.

True, Mr Alan Greenspan, the Fed's chairman, testified before the Senate Banking Committee on Tuesday – but his remarks were opaque at best.

Mr Greenspan's general thrust was that the economic slide was continuing, but at a slower rate, and the central bank needed to move cautiously before trying to hasten the recovery with further interest rate cuts.

Those comments also coincided with the March statistics on new orders for manufactured durable goods. At first sight, these figures might have been read as a positive signal for the bond market.

The 6.2 per cent decline overall was considerably worse than pundits had feared, and bond prices usually rise on negative – and, therefore, anti-inflationary – economic news.

However, in this case, closer inspection seemed to suggest that a good part of the decline was centred on aircraft and military hardware.

That fact, coupled with Mr Greenspan's caution and prospective Treasury auctions later in the week, limited the market's response. The long bond, for instance, gained less than half a point on Tuesday, with its yield sliding from 8.29 to 8.26 per cent.

Indeed, in terms of hard data, there has been no unequivocal evidence on the economy all week. Aside from the durable goods orders, traders confronted grim news from the car companies on recent sales, and a significant increase in the weekly claims for unemployment insurance. On Friday, however, the inflation fears returned when the GNP implicit price deflator showed an abnormally large jump for the first quarter of 1991.

This statistic is designed to measure domestically-generated inflation only. In part, the steep quarterly increase was seen as a function of a sharp fall in oil import prices in the first three months of the year, although the extent to which blame could be apportioned here was a matter of debate. That said, however, the figure still gave rise to unease – or at least provided a reason for traders to lighten their holdings at the end of the trading week.

Their concerns, moreover, were scarcely allayed when Federal Reserve Board governor, Mr David Mullins, suggested that the authorities needed to see more price data before "we declare major victory over inflation and say we've made major progress".

In fact, as good a sense as any of where the economy stands can probably be derived from the flood of company earnings announcements. For the past fortnight, a large chunk of corporate America has been unveiling its first-quarter earnings, and it is clear that any economic upturn is tentative at best.

Significant sectors – such as the steel industry – are still highly pessimistic about the rest of the year, and even some apparently healthy segments, such as food manufacturing, concede that their relative buoyancy stems largely from overseas operations.

As for the week ahead, most attention will focus on the April employment report, due out on Friday. Analysts are predicting that the national unemployment rate will rise to between 6.9 per cent and 7.1 per cent.

If correct, that would represent a gain of 0.1 to 0.3 of a percentage point on the March figure, and could entail a contraction of perhaps as much as 275,000 in non-farm payrolls.

Everyone concedes that the unemployment trends lag behind any incipient recovery in the economy, but figures of this magnitude would at least indicate some stabilisation. Anything beyond these parameters would be grounds for some excitement.

A broker's circular referred to last week should have been attributed to S.G. Warburg and not James Capel.

Nikki Tait

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	5.88	5.63	6.00	11.00	2.00
Three-month Treasury bills	5.76	5.91	5.92	7.94	5.54
Six-month Treasury bills	5.97	6.02	6.04	8.04	5.62
Three-month prime CDs	6.10	6.15	6.27	9.01	5.90
30-day Commercial Paper	5.95	6.00	6.32	8.28	6.05
90-day Commercial Paper	5.95	6.01	6.28	7.98	5.95

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	99¾	+[illegible]	7.91	7.99	7.94
20-year Treasury	109[illegible]	+[illegible]	8.20	8.24	8.25
30-year Treasury	96[illegible]	⅛	8.20	8.24	8.24

Money supply: In the week ended April 15 M1 rose by $2.4bn to $844.4bn

ECU BONDS

Offshore freedoms bring responsibility

DURING the first quarter of the year the Ecu international bond sector completed its transformation from a niche area into a flourishing offshore government bond market.

However, offshore freedom *also* brings responsibilities, a point made last week by the European Commission. The Commission is concerned that unregulated supply of Ecu bond issues by governments could lead to a glut of paper on the market.

The Ecu8.75bn of bonds launched in the first two weeks of February had a debilitating effect. Spain's Ecu1bn issue last week was the first substantial deal in the sector in nearly two months.

The Commission itself was the last big borrower to tap the market, raising Ecu1bn to finance a loan to Greece. The Commission's concern may partly stem from the fact that its two Ecu500m deals launched on February 26 were poorly received in a market awash with unplaced paper.

However, as any watcher of the gilts market will testify, the threat of oversupply is not a unique problem. Despite its sometimes unruly nature, the Ecu bond market has turned in a creditable performance over the past year.

At the end of 1989, 10-year Ecu bonds offered a yield spread of 180 basis points over comparable German government bonds. By the end of 1990, the yield spread had fallen to 126 basis points and had narrowed to about 70 basis points.

Indeed, the price performance of Ecu bonds has confounded theoretical models which calculate the "correct" price of Ecu bonds from the performance of the underlying national bond markets.

At the start of this year benchmark 10-year Ecu bonds, such as the French government's 10 per cent Ecu-denominated OAT maturing 2001, were yielding 40 basis points less than theories suggested, moving to more than 70 basis points by mid-February.

But since then Ecu bonds have generally underperformed the underlying national bond markets – in part due to the volume of new issues. Future advances may depend on the pace of progress towards European monetary union.

For example, if German proposals for a "hardened" single European currency were accepted, the basket Ecu would no longer be vulnerable to devaluation against the strongest currency in the exchange rate mechanism, the D-Mark.

"As a result, yields on Ecu bonds would collapse to about the level of the lowest running yield in the system, which is currently that on bunds, rather than moving in line with a weighted average of European bond yields," said Mr Gavyn Davies and Mr Jeremy Hale of Goldman Sachs in a recent research paper. "In other words, the spread between Ecu bonds and bunds would be entirely eliminated."

Simon London

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8 7/8 93	150	101⅝	+⅛	7.89
ABN 9 1/8 94	200	102	+⅛	8.37
AETNA LIFE & CAS 7 3/4 16	200	99¼	+⅛	7.81
ALBERTA PROVINCE 8 5/8 96	750	100¾	+⅛	8.43
ALBERTA PROVINCE 9 3/8 95	600	103⅝	+⅛	8.35
AMERICAN EXPRESS 0 00	450	41¼	+⅛	9.63
AMERICAN GENERAL 9 3/4 95	100	97½	+⅛	9.84
ANHEUSER-BUSCH 9 1/8 92	100	101⅝	+⅛	7.67
ASIAN DEV BANK 0 04	1000	31½		9.04
AUSTRALIA 11 95	200	108[illegible]		8.44
[illegible]				
SASKATCHEWAN 15 92	150	108¼	–⅛	7.98
SBAB 9 1/2 95	500	104	+⅛	8.30
SEAGRAM CO 8 1/2 96	100	97¾	+⅛	9.18
SEARS O/S FIN 0 98	500	50¼		9.98
SEARS O/S FIN 11 5/8 93	150	104¾	+⅛	9.32
SKANDIA INTL 7 1/4 92	200	99½		7.68
SNCF 7 1/4 94	175	97½	+⅛	7.59
SNCF 9 1/2 98	150	104⅝		8.60
STATE BK STH AUST 9 1/4 93	100	102	+⅛	7.97
STATE EL VICTORIA 10 92	100	103	+⅛	7.86
STATOIL 7 5/8 94	200	97½	+⅛	8.49
[illegible]				
PETRO-CANADA 7 1/4 96	200	95¼	+⅛	8.44
PHILIP MORRIS 9 7/8 98	200	102	–⅛	9.45
PROCTER & GAMBLE 10 95	150	102¾	+⅛	9.13
PRUDENTIAL RLTY SECS 0 99	365.216	50½	+⅛	9.25
QANTAS AIRWAYS 8 5/8 96	97.75	99½	+⅛	8.65
QUEBEC HYDRO 9 3/4 98	150	103½	–⅛	9.08
QUEBEC PROV 9 98	200	100¼		8.97
QUEENSLAND GOVT 10 1/4 95	100	105¼	+⅛	8.71
RALSTON PURINA 11 3/4 95	150	107¼	+⅛	9.49
REED PUBLISHING 9 5/8 97	150	102	–⅛	9.17
REYNOLDS (RJ) 10 1/4 95	100	99¼	+⅛	10.62
SAINSBURY 9 1/8 96	150	101⅝	+⅛	8.68
SARA LEE 9 3/8 93	150	102¼	+⅛	8.23
SAS 10 99	200	99¼		10.04
SAS 10 1/8 95	150	101⅝	+⅛	9.57

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
ASIAN DEV BANK 6 10	100	93		6.65
AUSTRIA 4 5/8 98	100	87	–⅛	6.69
CHUBU/TSUYA 7 3/4 95	50	102		7.10
COUNCIL EUROPE 4 3/4 98	250	89	–⅛	6.82
EEC 5 1/2 00	100	93½	+1½	6.57
EIB 5 3/4 93	100	97½		6.74
ELEC DE FRANCE 7 1/4 06	100	104¾	+⅛	6.73
FINLAND 5 3/8 95	150	95¼	+⅛	6.48
GENERAL MOTORS 7 1/2 95	100	102¼	+⅛	6.75
JAPAN DEV BK 5 1/2 94	100	97½	+⅛	6.50
[illegible]				

[illegible]	Issued	Bid price	Chg on week	Yield
DEUTSCHE BK FIN 5 5/8 96	750	87½	–⅛	8.70
DEUTSCHE FINANCE 7 1/2 95	1000	97½	+⅛	8.29
EEC 5 3/8 93	300	93½		9.61
EIB 6 7/8 95	500	92¾		8.86
EUROFIMA 6 1/4 98	400	87½	–⅛	8.44
FELDMUEHLE FINANCE 8 99	200	96½	–⅛	8.64
FERRO DEL STAT 5 3/8 93	500	94¾		9.02
IND BK JAPAN FIN 5 5/8 96	200	87½	–⅛	8.95
INTER AMER DEV 7 1/4 99	300	92½	–⅛	8.58
LUFTHANSA INT FIN 5 7/8 98	900	86	+⅛	8.62
MET EST & PROP INTL 7 99	150	85½	+⅛	9.67
QUEBEC HYDRO 6 3/4 99	300	87½		9.07
SWEDEN 6 1/8 98	300	87½	–⅛	8.52
WORLD BANK 0 15	2000	16¾		7.62
WORLD BANK 5 3/4 96	300	89¼		8.56
WORLD BANK 7 1/8 95	500	95¼	–⅛	8.49

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]				
BRIDGESTONE CORPN	07/10/92	[illegible]	[illegible]	27.40
CASIO COMPUTER	16/09/92	[illegible]	+[illegible]	23.86
DAIWA HOUSE INDUSTRY	04/06/92	[illegible]	–1½	58.29
FUJITSU	20/04/93	[illegible]	–1½	40.10
HINO MOTORS	09/07/94	[illegible]	[illegible]	34.08
KIRIN BREWERY	23/07/92	[illegible]	[illegible]	54.80
MITSUBISHI EST	11/03/94	[illegible]	+[illegible]	95.22
MITSUI REAL ESTATE DEV	20/03/92	[illegible]	[illegible]	47.62
NICHII	17/02/93	[illegible]	[illegible]	71.98
NIPPON MEAT PACKERS	17/09/92	[illegible]	[illegible]	46.17
NIPPON OIL	14/08/92	[illegible]	–1½	29.75
SUMITOMO CHEM	20/07/93	[illegible]	[illegible]	86.24
TOYO SASH	27/04/93	13½	–2½	30.95
TOYOTA MOTOR	15/07/92	18¼	–2	7.43
UNITIKA	20/07/93	4½	[illegible]	60.42
YAMANOUCHI PHARM	30/06/92	5½	[illegible]	26.91

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on April 26

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Banks consolidate position of power

SYNDICATED lenders have found themselves elevated from a position of subservience to one of power in the last 18 months.

There are two main explanations for the banks' current caution when it comes to lending: the Bank for International Settlements' requirements for capital adequacy ratios, and fears that some borrowers may not survive the recession.

As a result, pricings have increased and, in some cases, banks have been able to negotiate tighter covenants. They are also keen to monitor a borrower's accounts more frequently.

In the past 18 months, the price of corporate credit has doubled or in some cases trebled in terms of interest margins, commitment fees and front-end fees.

Bankers like to boast that they now have more clout when it comes to requesting tighter financial ratios and more detailed covenants. For example, Barclays, Manufacturers Hanover and S-E Banken recently arranged a three-year $250m term loan for VME, the construction machinery group jointly owned by Volvo of Sweden and Clark Equipment of the US.

The covenant stipulated interest cover (profit divided by total interest charged) of 1.75 times for the first year and 2 times thereafter.

According to one banker involved in the deal, had VME chosen to do such a deal a year ago, the interest cover requested probably would have been 1.5 times and 1.75 times respectively. The banker says that, in general, interest cover requested now is usually in the range of 2-2.5 times.

Another banker points out that gearing (the debt-to-equity ratio) is also scrutinised more closely. Whereas a year ago, gearing ratios of up to 150 per cent were acceptable, bankers prefer gearing of 100 to 125 per cent today.

Finally, where once the yearly audited accounts were considered adequate, bankers now want to see half-yearly or even quarterly management accounts to check the company is meeting the financial ratio requirements.

Not surprisingly, companies tend to resist the banks' requests for financial covenants – to which the banks' reply is simply "no covenants, no quality banks" – unless the borrower is prepared to accept a higher pricing.

● A handful of syndicated loans came to the market last week. Deutsche Bank is arranging a DM150m five-year multi-currency revolving credit facility for Varde Bank, Denmark's fifth largest commercial bank.

The interest margin is 30 basis points over the London interbank offered rate (Libor), with a commitment fee of 15 basis points and a participation fee of 15 basis points for amounts of DM15m. The pricing is regarded as rather aggressive: one bank which arranged a similar financing for Varde Bank in recent years suggested that an interest margin of 40 basis points might be required to attract lenders.

● While syndication for Inntrepreneur, the holding company in a pubs-for-breweries swap between Grand Metropolitan and Elders IXL, has finally closed, there is a new £160m two-year financing in the market for Inntrepreneur Estates (CH) plc, arranged by Citicorp, Barclays, S.G. Warburg and National Westminster.

This is a wholly-owned subsidiary of Inntrepreneur Estates Limited, which is jointly owned by GrandMet and Fosters Brewing Group. The interest margin is 1 percentage point over Libor and there are participation fees of 30 basis points on £20m, 20 basis points on £10m and 10 basis points on £5m.

Sara Webb

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,265.1	0.0	66.0	13,618.7
Prev	1,833.2	96.9	95.0	13,039.4
Other	3,026.5	123.9	264.9	5,976.3
Prev	1,713.1	0.0	248.8	8,687.7
Secondary Market				
US$	20,405.3	814.1	5,765.6	8,241.9
Prev	17,704.9	852.3	6,948.6	9,263.4
Other	32,351.2	1,283.6	4,549.7	53,297.5
Prev	26,983.3	945.5	4,569.5	57,791.2

	Cedel	Euroclear	Total
US$	16,791.7	34,385.0	51,176.7
Prev	17,664.7	32,169.0	49,833.7
Other	38,765.5	62,108.1	100,873.6
Prev	40,463.5	60,475.6	100,939.1

Week to April 25, 1991 Source: AIBD

INTERNATIONAL BONDS

Japanese equity warrants begin cautious recovery

THE MARKET for Japanese equity warrants – long-dated options to buy shares – bounced back in April, when 23 new issues of equity warrant bonds were launched.

The recovery of the market is the latest in a series of resurrections over the past year or so. But potential supply in the sector still outstrips demand, so the market is being carefully monitored in an effort to ward off another collapse.

At the end of last year, about 80 per cent of warrants were out of the money – that is, the exercise price of the warrant was lower than the share price, so they were not worth converting. Now, according to Robert Fleming, 114 actively-traded dollar warrants are in the money and 282 are out, following the recovery of the Japanese stock market.

Although new issue volume has picked up steadily, demand for paper is not even close to the peaks of 1989.

Equity warrants follow underlying stock prices, but their movements are exaggerated because they are highly-geared instruments.

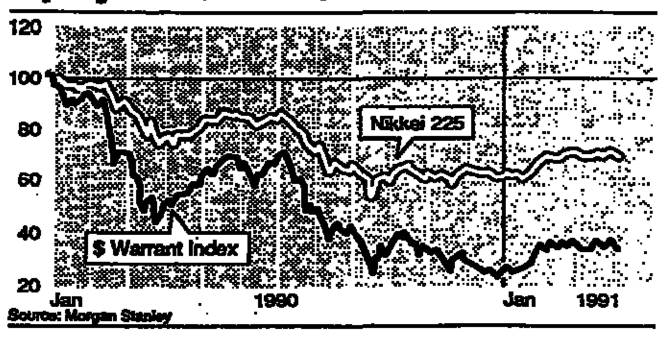
Consequently, they are most useful – and most dangerous – in volatile markets. The current trading range of the Japanese stock market between 26,000 and 27,000 has put a damper on the secondary market. "In a flat market, it is impossible for investors to make the 1¼ points bid/offer spread to break even," one analyst pointed out.

Japan's Golden Week holiday this week is further stifling activity.

Meanwhile, the pattern of the new issues market is changing. Seven of this months' new issues were denominated in a currency other than dollars, the usual sector for equity warrants.

There are signs that warrants in European currencies will form an increasingly important portion of the market. D-Mark and Swiss franc issues made up less than 9 per cent of the market at the end of 1990, but accounted for more than 15 per cent by the end of the first quarter of 1991.

Morgan Stanley Japanese equity warrant index



Source: Morgan Stanley

Historically, the D-Mark sector has been the domain of smaller, lesser-known companies. Japanese investors have not bought such paper because these small issues were rather illiquid, but larger companies have started to enter the market, enticed by better swap opportunities and the chance to tap a fresh investor base.

According to Robert Fleming research, the all-in yen cost of borrowing is now marginally cheaper in D-Marks than in dollars, at 3.5 per cent versus 3.6 per cent for a four-year issue of 4 per cent bonds with warrants. There have also been suggestions that large issuers have stayed away from the dollar sector because of embarrassment that their existing warrants in the sector were substantially out of the money.

The appearance of larger deals, such as a DM400m issue for Daiwa earlier this month, has encouraged Japanese investors to become more active in the D-Mark sector. However, they are still not buyers of Swiss franc equity warrants, because that market, dominated by the domestic investor, is still quite illiquid.

Meanwhile, marketmakers in dollar warrants based in London, which provides much of the market's liquidity, are starting to make markets in D-Mark warrants as well.

More importantly, it is expected that D-Mark warrants will soon be traded on the broker-broker market in Japan, which would encourage greater participation by Japanese investors. Issues of more than DM200m are expected to be traded.

The growth of the Ecu bond market this year has increased the prospect of Ecu-denominated warrants. But the relatively high cost of funds for borrowers remains a barrier. The Ecu/yen swap market is less liquid than either the D-Mark/yen market, as well as the dollar/yen market.

Further, the Swiss franc and D-Mark sectors were supported at the outset by domestic buying, while there is no obvious investor base for Ecu warrants.

The lack of a domestic investor base may also slow development of a market in French franc equity warrants. The first such deal, a FFr1bn offering for Yamanouchi Pharmaceutical, was launched at the beginning of April, and opened at a three-point premium to its par issue price.

Japanese securities houses are keen to nurture demand for their lucrative equity warrant business. The Y50bn equivalent limit on the size of new issues has been in force for a year and is likely to remain.

However, the market may face a further threat in the form of supply from another source. The Japanese equity market, which has been closed to new issues for a year, may reopen in June or July. The reopening of this market "may take some of the money out of the equity warrant market," said one Japanese banker.

Tracy Corrigan

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Sumitomo Metal Mining(b)♦†	300	1996	5	4½	100	Daiwa Europe	4.500
Taihei Kogyo Co.(a)♦†	100	1995	4	4	100	Daiwa Europe	4.000
P.T. Intl Trayon Utama(c)§†	80	2006	15	7	100	CSFB	7.000
Unitika Co.♦	110	1995	4	4	100	Nomura Int.	4.000
Credit Local de France†	200	1994	3	7¾	101.0375	JP Morgan Secs.	7.352
LKB Baden-W'berg.Fin NV†	200	1994	3	7¾	100.9475	Nomura Int.	7.386
Skopbank(d)‡†	100	1994	3	(d)	100.20	Salomon Bros.	-
Compagnie Bancaire†	250	1994	3	8¼	101.275	CSFB	7.757
WR Grace & Co.(j)§	150	2006	15	zero	30.832	Merrill Lynch Int.	8.160
Uny Co.(b)♦†	150	1995	4	4	100	Nomura Int.	4.000
Kansallis-Osake-Pankki†	200	1995	4	8½	101.47	CSFB	8.054
Nat.Westminster Bk(p)†	750	2001	10	9¾	100	Goldman Sachs	9.750
Chubb Capital Corp(s)§	250	1998	7	6	100	Morgan Stanley Int.	6.000
STERLING							
Chel'ham & Gloucester(e)‡†	125	1995	4	(e)	100	UBS Phillips & Drew	-
Agricultural Mtge.Corp†	100	1996	5	11⅜	99.62	SG Warburg Secs.	11.479
Daimler-Benz UK†	100	1996	5	10¾	100.85	Deutsche Bk Cap.Mkts.	10.523
ECUs							
The Kingdom of Spain†	1bn	1996	5	9	99.70	Banesto	9.077
EIB(h)†	300	1999	8	9	101.755	Nomura Int.	8.687
EDF(m)†	74.053	2001	10	10½	107.90	Paribas Capital Mkts.	9.255
CANADIAN DOLLARS							
Merrill Lynch & Co.Inc.†	100	1996	5	10⅞	101.175	Merrill Lynch Int.	10.561
Eksportfinans A/S†	150	1996	5	10¼	101.745	Wood Gundy	9.792
KFW International Fin.(n)†	100	2001	9.833	10	99.575	Merrill Lynch Int.	10.059
AUSTRALIAN DOLLARS							
State Elec.Comm.Victoria†	125	2001	10	12¼	101⅛	Hambros Bank	12.050
FRENCH FRANCS							
Bollore Technologies(f)§†	300	1999	7⅔	7	100	Lazard Freres	8.22
Bqe.Nationale de Paris†	1.5bn	1996	5	9⅜	101.44	Bque.Nationale de Paris	9.005
Deutsche Bank Fin.NV†	1bn	2001	10	9¼	101.085	Bque.Nationale de Paris	9.083
Credit National(o)†	1bn	1994	3	9¼	100.8775	CCF	8.904
D-MARKS							
Mitsubishi Electric Corp(k)♦†	300	1995	4	4	100	Daiwa Europe GmbH	4.000
Mitsubishi Electric Corp(k)♦†	200	1998	7	5½	100	Deutsche Bank	5.500
Merrill Lynch & Co.Inc.†	150	1994	3	9¼	101.45	Merrill Lynch Bk AG	8.680
BP America Inc.(g)†	125	1998	7	zero	57.85	Citibank AG	8.133
Japan Bridge Co.(q)♦†	55	1995	4	4	100	Yamaichi Int.GmbH	4.000
Maruun Transport(l)♦†	45	1995	4	4	100	Nikko Secs.GmbH	4.000
Sakata Inx Corp♦	70	1995	4	4	100	Yamaichi Int.GmbH	4.000
SWISS FRANCS							
Deutsche Bk Finance NV★★†	100	1996	-	6¾	102	Deutsche Bk (Suisse)	6.272
Japan Systems(i)★★§	70	1995	-	4¼	100	Daiwa (Switzerland)	4.294
Tiroler Ferngas★★†	40	1996	-	6⅞	102	Swiss Volksbank	6.395
Hydro Quebec★★†	150	2001	-	6¾	101¼	UBS	6.576
LIRE							
Cr.Suisse Fin.Gibraltar†	150bn	1996	5	12.20	101⅞	Banco di Napoli	11.684
YEN							
Marubeni America Corp†	10bn	1996	5	7.3	101.1875	Nomura Int.	7.010
Elkraft Power(r)†	13bn	2001	10	6.8	95	Nomura Secs.	7.323
LUXEMBOURG FRANCS							
Kansallis Osake-Pankki†	750	1998	7	9¼	102⅛	BGL	8.830
Locabel Int.BV★★†	500	1996	5	9⅜	101¾	Credit Europeen	8.926
Credito Romagnolo★★†	1bn	1996	5	9½	101.95	Cregem Int.	8.999
MEPI NV†	500	1996	5	9⅜	101.85	Credit Europeen	8.901

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. ♦Variable rate notes. †Final terms. a) Exercise premium fixed at 2.51%. Non-callable. b) Exercise premium fixed at 2.5%. Non-callable. c) Conversion premium fixed at 8.78%. Callable from May 1994 at 102% declining 1% per annum until 100% in 1996. d) Coupon pays 25bp over 3-month Libor. Non-callable. e) Coupon pays 15bp over 3-month Libor Minimum interest rate of 5%. Non-callable. f) Redeemable in 3 equal tranches in 1997, 1998 and 1999 at 110%. Conversion premium fixed at 10%. g) Implied yield at issue - 8.13258%. Non-callable. h) Fungible with existing Ecu325m deal from 8/91. Non-callable. i) Put option on 30/9/93 at 107% to yield 7.027%. Coupon payable semi-annually. j) Puttable in year 5 at 45.639% and year 10 at 67.557%. No call for first 2 years subject to 150% rule, then callable at accreted value, thereafter. k) Exercise premium fixed at 2.57%. Non-callable. l) Exercise premium fixed at 2.58%. Non-callable. m) Fungible with existing Ecu456.142m deal. Non-callable. n) Fungible with existing C$200m deal. Non-callable. o) Fungible with existing FFr1bn deal. Non-callable. p) Yankee subordinated issue. Non-callable. q) Exercise premium fixed at 2.56%. Non-callable. r) Samurai dual-currency issue. Coupon payable in Australian dollars. Non-callable. s) Non-callable for 3 years. Conversion premium fixed at 24.4%. Note: Yields are calculated on AIBD basis.

WORLD STOCK MARKETS

AUSTRIA

1991 High	Low	April 26	Price Sch
3,710	2,210	Austrian Airlines	3,400
3,540	2,450	Creditanstalt	3,460
4,925	3,200	EA General	4,525
8,800	5,830	EVN	8,420
12,550	7,250	Jungbunzlauer	10,700
1,395	1,210	Laenderbank	1,380
10,090	8,050	OeMv	9,500
1,720	1,129	Perlmooser Zement	1,510
975	555	Radex Heraklith	945
2,351	1,520	Reininghaus Brau	2,070
449	276	Steyr Daimler	425
669	538	Veitscher Magnesit	770
564	445	Verbund (Br) A	532
6,325	4,400	Wienerberger	6,095

BELGIUM/LUXEMBOURG

1991 High	Low	April 26	Price Frs.
3,020	2,110	ACEC-Union Min	2,670
4,440	2,750	Arbed	4,155
3,210	2,280	BBL	3,000
12,500	11,800	Bank Intl a Lux	12,400
12,750	12,400	Banq Gen Lux Pts	12,600
1,505	910	Barco	1,426
9,940	6,650	Bekaert	9,020
8,350	5,310	CBR Ciment	8,000
5,450	4,610	Cobepa	5,360
5,700	4,600	Cobepa AFV 1	5,300
179	133	Cockerill Priv	167
3,490	2,505	Colruyt	3,100
8,100	5,560	Delhaize Frs Lion	7,760
4,910	4,165	Electrabel	4,865
4,900	4,080	Electrabel AFV	4,850
3,170	2,505	Electrafina ACT	3,140
234	71	Fabrique Nat	126
3,850	2,850	GBL AFV 1	3,720
1,370	960	GIB Group AFV	1,332
3,950	2,910	GBL	3,840
1,354	982	GIB Group	1,328
900	600	Gechem	834
320	600	Gechem AFV	782
5,610	3,995	Generale Banque	5,330
5,520	4,205	Gen Banque AFV 1	5,480
8,000	6,000	Gevaert	7,490
4,205	3,245	Kredietbank	4,060
4,245	3,300	Kredietbk AFV	4,155
[illegible]	[illegible]	[illegible]	[illegible]

DENMARK

FINLAND

FRANCE

FRANCE (continued)

GERMANY

GERMANY (continued)

ITALY

NETHERLANDS

NETHERLANDS (continued)

NORWAY

SPAIN

SWEDEN

SWEDEN (continued)

SWITZERLAND

SOUTH AFRICA

AUSTRALIA

AUSTRALIA (continued)

HONG KONG

MALAYSIA

SINGAPORE

JAPAN

Price data supplied by Telekurs.

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. ± Dealings suspended, xd Ex dividend, xc Ex scrip issue, xr Ex rights, xa Ex all.

CANADA

TORONTO

4:00 pm prices April 26

Quotations in cents unless marked $

MONTREAL

4:00 pm prices April 26

Sales	Stock	High	Low	Close	Chng
300	Videotron	$13¾	13¾	13¾	

Total Sales 12,254,900 shares

‡ - No voting rights or restricted voting rights

INDICES

NEW YORK

DOW JONES	Apr. 26	Apr. 25	Apr. 24	Apr. 23	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
◆Industrials	2912.38	2921.04	2949.51	2930.45	3004.46 (17/4)	2470.30 (9/1)	3004.46 (17/4/91)	41.22 (2/7/32)
Home Bonds	94.11	94.10	94.19	94.10	94.86 (15/2)	91.30 (16/1)	95.51 (9/2/87)	54.99 1/10/81)
Transport	1166.08	1170.13	1171.02	1157.09	1178.07 (18/4)	894.30 (7/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	209.82	209.38	210.39	209.51	220.89 (16/4)	199.64 (16/1)	236.23 (2/1/90)	10.50 (8/4/32)

◆Day's High 2934.90 (2958.42) Low 2888.61 (2905.20)

STANDARD AND POOR'S	Apr. 26	Apr. 25	Apr. 24	Apr. 23	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	379.01	379.25	382.76	381.76	390.45 (17/4)	311.49 (9/1)	390.45 (17/4/91)	4.40 (1/6/32)
Industrials	449.86	450.13	454.25	452.99	463.23 (18/4)	364.90 (9/1)	463.23 (18/4/91)	3.62 (21/6/32)
Financial	30.20	30.28	30.65	30.59	31.58 (18/4)	21.96 (9/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	207.27	207.50	209.17	208.68	213.21 (17/4)	170.97 (9/1)	213.21 (17/4/91)	4.46 (25/4/42)
Amex Mkt. Value	363.87	364.20	365.03	365.70	373.40 (18/4)	296.72 (14/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	494.64	496.03	498.45	496.08	511.31 (17/4)	355.75 (14/1)	511.31 (17/4/91)	54.87 (31/10/72)

	Apr.19	Apr.12	Apr.5	year ago (approx.)
Dow Industrial Div. Yield	3.40	3.45	3.48	4.07
	Apr.24	Apr.17	Apr.10	year ago (approx.)
S & P Industrial div. yield	2.74	2.69	2.85	3.12
S & P Indl. P/E ratio	18.70	19.07	18.17	15.27

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Saatchi	10,304,100	1⅛	—
Compaq	3,127,900	50⅞	- 1⅛
Merrill Lynch	2,453,700	38¼	—
Southern	1,893,700	27½	- ⅛
Citicorp	1,861,100	15¼	—
AT & T	1,740,500	38	+ ½
Boeing	1,709,100	46¼	- 1½
LVI Grp.	1,423,400	⅛	—
Nabisco (RJ)	1,331,700	11⅝	- ⅛
Philip Morris	1,326,800	67⅞	- ⅛

TRADING ACTIVITY

† Volume (Millions)	Apr. 26	Apr. 25	Apr. 24
New York	153.860	166.940	166.800
Amex	10.605	12.109	10.136
NASDAQ	(u)	169.585	158.230
Issues Traded	2,036	2,032	2,052
Rises	663	569	844
Falls	867	961	727
Unchanged	506	902	481
New Highs	63	73	73
New Lows	8	8	10

CANADA

TORONTO	Apr. 26	Apr. 25	Apr. 24	Apr. 23	1991 HIGH	1991 LOW
Metals & Minerals	3134.90	3158.36	3201.71	3198.44	3284.18 (5/3)	2632.06 (9/1)
Composite	3497.22	3502.00	3504.10	3502.39	3571.53 (6/3)	3161.95 (15/1)
MONTREAL Portfolio	1849.57	1852.29	1849.57	1848.41	1888.19 (5/3)	1686.89 (9/1)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Apr. 26	Apr. 25	Apr. 24	Apr. 23	1991 HIGH	1991 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1537.8	(c)	1518.5	1510.5	1537.8 (26/4)	1204.5 (16/1)
All Mining (1/1/80)	671.2	(c)	665.5	668.3	673.7 (18/4)	561.6 (16/1)
AUSTRIA						
Credit Aktien (30/12/84)	522.07	525.04	523.58	518.61	534.81 (16/4)	390.84 (15/1)
BELGIUM						
BEL20 (1/1/91)	1202.85	1208.88	1208.50	1209.04	1212.15 (17/4)	917.59 (17/1)
DENMARK						
Copenhagen SE (3/1/83)	(c)	345.03	348.33	349.50	354.26 (4/4)	302.26 (8/1)
FINLAND						
HEX General (28/12/90)	1093.0	1094.8	1098.9	1101.8	1186.9 (8/4)	890.5 (23/1)
FRANCE						
CAC General (31/12/82)	477.98	479.20	479.31	480.49	493.78 (9/4)	394.88 (15/1)
CAC 40 (31/12/87)	1774.67	1777.02	1782.83	1781.83	1851.89 (3/4)	1425.26 (15/1)
GERMANY						
FAZ Aktien (31/12/58)	685.96	686.92	678.92	676.76	686.92 (25/4)	570.48 (15/1)
Commerzbank (1/12/53)	1944.6	1949.3	1921.4	1915.9	1949.3 (25/4)	1612.5 (15/1)
DAX (30/12/87)	1625.81	1628.45	1603.73	1597.85	1623.83 (17/4)	1311.82 (16/1)
HONG KONG						
Hang Seng Bank (31/7/64)	3625.80	3594.38	3605.29	3549.64	3869.78 (3/4)	2984.01 (16/1)
IRELAND						
ISEQ Overall (4/1/88)	1456.46	1456.06	1467.54	1472.27	1528.65 (15/3)	1114.86 (25/1)
ITALY						
Banca Com. Ital. (1972)	582.94	(c)	589.22	593.17	602.64 (19/4)	486.26 (29/1)
JAPAN						
Nikkei (16/5/49)	26123.68	26038.86	26330.21	26492.57	27146.91 (18/3)	22442.78 (16/1)
Tokyo SE (Topix) (4/1/68)	1957.96	1952.56	1974.03	1982.52	2008.85 (18/3)	1625.00 (17/1)
2nd Section (4/1/68)	3312.43	3337.38	3350.31	3363.72	3404.88 (19/4)	2473.52 (24/1)
MALAYSIA						
KLSE Composite (4/4/86)	594.42	591.45	590.84	588.38	605.85 (11/3)	478.41 (16/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	274.0	276.6	274.5	275.1	276.6 (25/4)	221.4 (16/1)
CBS All Shr (End 1983)	199.6	201.5	200.2	200.8	201.5 (25/4)	162.3 (16/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	716.14	716.13	702.39	712.08	735.00 (8/3)	618.45 (22/1)
PHILIPPINES						
Manila Comp (2/1/85)	1048.18	1052.99	1046.31	1022.83	1154.73 (8/4)	582.64 (10/1)
SINGAPORE						
SES All-Singapore (2/4/75)	422.43	420.44	417.54	416.31	422.43 (26/4)	315.07 (16/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1048.8	1049.0	1073.0	1044.0	1367.0 (14/1)	971.0 (25/2)
JSE Industrial (28/9/78)	3559.8	3549.0	3512.0	3479.0	3559.0 (26/4)	2829.0 (16/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	634.29	626.36	632.83	637.84	697.62 (4/1)	614.60 (16/1)
SPAIN						
Madrid SE (30/12/85)	276.83	281.32	281.50	280.16	289.22 (18/3)	215.70 (14/1)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	1061.2	1064.4	1066.0	1066.7	1119.0 (18/3)	808.4 (8/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	738.3	739.7	741.1	739.9	743.0 (3/4)	590.4 (14/1)
SBC General (1/4/87)	616.1	617.5	619.8	620.1	625.1 (9/4)	487.1 (14/1)
TAIWAN**						
Weighted Price (30/6/66)	5941.15	5913.82	5806.74	5732.09	5941.15 (26/4)	3316.26 (16/1)
THAILAND						
Bangkok SET (30/4/75)	872.51	883.60	895.34	893.19	908.13 (19/4)	582.48 (16/1)
WORLD						
M.S. Capital Intl.(1/1/70) (§)	505.0*	505.3	509.5	509.1	529.2 (17/4)	439.1 (16/1)

**Saturday April 20: Taiwan Weighted Price: 5754.09. Korea Comp Ex. 620.57.
§ Subject to official recalculation. *Calculated at 15.00 GMT.
Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 26 April 1991

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nihon Nohyaku	6.0m	2,100	-150	M'bishi Heavy	3.6m	780	+6
Nippon Steel	4.8m	473	+9	Isuzu Motors	3.5m	461	-9
Asahi Chemical	4.3m	788	-62	Kawasaki Steel	3.5m	433	+1
Sharp	3.8m	1,580	+20	Kobe Steel	3.4m	540	+9
Japan Steel Wks	3.7m	700	+25	Acid	3.4m	786	+18

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 45p per minute peak and 34p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income						
American Income	6	49.37	49.37xd	52.80	6.57	40000
Gilts & Fixed Int	6	113.0	113.0xd	119.9	9.59	40001
High Inc Equity	6	138.3	138.8xd	147.6	5.76	40002
Worldwide Bond	6	208.2	208.2xd	220.7	6.80	40003
Capital Growth						
American Growth	6	202.3	202.3	216.3	1.21	40004
Asian Pacific	6	131.6	134.4	142.9	14	40005
Assets & Earnings	6	175.4	179.1	190.5	2.91	40006
Capital Reserve Acc	0	104.2	104.2	104.2	7.28	40007
Capital Reserve Inc	0	82.41	82.41xd	82.43	7.28	47580
Comdty & Energy	6	78.80	78.80xd	84.27	.89	40008
1992 Enterprise	6	64.35	64.35	68.82	3.15	46597
Euro Capital Acc	6	89.08	89.08	95.27	1.42	40009
Euro Capital Inc	6	85.11	85.11xd	91.02	1.43	47581
General	6	170.8	170.8xd	182.6	2.74	40010
Japan	6	103.5	103.5	110.6	–	40011
Mastertrust	6	90.62	90.62	96.91	2.18	40012
UK Growth Acc	6	160.6	160.6	171.7	2.16	40013
UK Growth Dist	6	103.2	103.2xd	110.3	2.18	40014
US Emerging Cos	6	66.10	66.10	70.69	–	40015
Income & Growth	6	307.5	307.5	328.8	4.26	40016
Ethical	6	50.35	50.35	53.85	3.03	40017
International	6	62.96	63.78	67.85	1.43	46852
Dividend & Growth	6	49.35	50.52	53.74	5.58	47871
Global Gwth & Sec	6	51.12	51.42	54.70	1.83	44086

Aberforth Unit Trust Managers Ltd (1600)F
16 Chester St, Edinburgh EH3 7RA 031 220 0733

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (◆) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation.
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071–379–0444.

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 45p per minute peak and 34p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Stewart Ivory Unit Tst Mgrs Ltd (1500)H						
45 Charlotte Sq, Edinburgh					031-226 3271	
American ♥	5	303.1	303.1	323.6	1.34	41410
(Accum Units) ♥	5	354.6	354.6	378.6	1.34	41411
British ‡	5	789.3	789.3xd	835.0	5.76	41416
(Accum Units) ‡	5	1263.6	1263.6	1336.8	5.76	41417
European ‡	5	335.1	335.1	357.3	1.50	41418
(Accum Units) ‡	5	359.2	359.2	383.0	1.50	41419
Japan ‡	5	122.9	122.9	130.7	–	41420
(Accum Units) ‡	5	123.8	123.8	131.7	–	41421
New Pacific ‡	5	170.3	170.3	181.1	2.23	46365
(Accum Units) ‡	5	171.6	171.6	182.5	2.23	47994
PEP	5	131.0	133.2	141.0	3.60	47988
Mngd Equity	5	120.6	122.4	129.5	3.61	47586
Mngd Equity Acc	5	124.8	126.6	134.0	3.61	40886
Mngd Cash ‡	5	95.97	95.97xd	100.7	11.95	47585
(Accum Units)	5	111.2	111.2	116.7	11.95	40287
Mngd Fixed Int Acc	5	118.5	118.5	125.5	6.66	42132
Majority Stlg	1	99.88	99.88xd	100.87	11.23	42765
Majority Stlg Acc	1	102.67	102.67	103.69	11.23	–
Storebrand Intl Inv Mngrs Ltd (1200)F						
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries: 0277 227300				Dealing: 0277 261010		
International Apr 15	0	49.74	49.74	50.23	3.44	46906
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
Sun Alliance House, Horsham					0403 56293	
Equity	6	585.8	593.6	634.9	3.39	41423
North America	6	77.52	77.52	82.91	1.27	41424
Far East	6	97.97	97.97	104.8	0.62	41425
W'wide Bond	6	46.35	46.35xd	49.31	6.79	41426
W'wide Financial	6	35.32	35.32	37.78	3.76	41427
W'wide Technology	6	42.49	42.49	45.44	1.93	41428
European	6	65.94	65.94	70.52	1.45	41429
Equity Income	6	70.08	70.08	74.95	5.42	41430
Portfolio	6	58.08	58.08xd	62.12	3.32	41431
Sun Life of Canada Unit Mgrs Ltd (1000)H						
Basingview, Basingstoke, Hants					0800 525725	
American Growth	6	25.77	25.77	27.57	0.75	47795
Managed Assets	6	103.81	104.32	111.58	5.25	44067
UK Income	6	34.51	35.03	37.47	7.28	41432
UK Growth	6	33.34	33.77	36.12	2.86	41433

	Bid Price	Offer Price	Yield Gross	City-line
COIF–Charities Official Inv Fd‡‡				
2 Fore Street, London EC2Y 5AQ			071-588 1815	
Income Apr 2	518.75	523.48	5.48	40258
Accum Apr 2	1836.54	1861.36	–	40259
Fixed Int Income Apr 2	110.75	110.97	10.45	43071
Fixed Int Accum Apr 2	120.10	120.34	–	43070
Deposit Account: see Money Market Trust Funds				
Edinburgh Fund Mngrs PLC				
Exempt Funds				
American Apr 24	158.6	163.2xd	1.53	40368
Managed Apr 24	142.3	147.6xd	3.90	40369
Japan Apr 25	124.6	128.0	0.08	40370
Sm Jap Cos Apr 26	590.0	606.2	0.08	40372
Fidelity Investment Services Ltd				
Mngd Pens P'folio	130.2	134.3	3.85	46885
Robert Fleming Asset Mngmt Ltd				
Am Exempt	£474.61	481.70	1.57	40456
Gen Exempt	£131.65	134.98	4.09	40457
Jap Exempt	£499.65	509.61	0.74	40458
Pacific Exempt	£100.62	102.62	2.45	46888
Contl Euro Exempt	£96.66	98.52	2.06	47674
Indexed Exempt Apr 25	£126.80	129.95	4.62	46886
Amer Indexd Expt Apr 25	£105.05	106.10	2.60	47673
Japan Indexd Expt Apr 25	£68.42	69.79	0.36	47676
Euro Indexd Expt Apr 25	£95.68	97.60	2.87	47675
P'cem Indexd Expt Apr 25	£100.88	103.11	2.17	46887
Funds In Court*				
Capital Apr 18	503.17	505.47xd	2.04	40505
Gross Apr 18	191.64	192.61	8.83	40506
High Yield Apr 18	303.58	305.16	6.39	40507
* Restricted to monies under Court control				
Henderson Unit Trust Management Ltd				
Pensions Mngd	151.79	152.87xd	3.80	40676
INVESCO MIM Management Ltd				
Exempt Funds				

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 45p per minute peak and 34p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

N & P Life Assurance Ltd
6-7 Bedford Row, London, WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	Yield Gross	City-line
Life Managed Fd.	104.9	110.4	–	41924
Pension Managed Fd.	101.8	107.1	–	41926
Life Deposit Fd.	106.2	111.8	–	41923
Pension Deposit Fd.	110.9	116.8	–	41925

National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Managed Cautionary	110.2	121.2	–	47150
Managed Growth	137.9	151.8	–	47151
Managed Opportunity	136.5	152.7	–	47152
NFMC Target Financial	101.4	108.5	–	47153
Pension Funds				
Managed Cautionary	119	130.4	–	47154
Managed Growth	144.5	159	–	47155
Managed Opportunity	139	153.1	–	47156
NFMC Target Mngd Pens	1505.9	1634.7	–	47157

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	Yield Gross	City-line
Harvester Pension Funds				
Managed	162.4	171.0	–	43141
UK Equity	170.1	179.1	–	43135
Overseas Equity	139.3	146.7	–	43136
Fixed Interest	143.3	150.9	–	43137
Property	130.9	137.8	–	43138
Index Linked	147.5	155.3	–	43139
Deposit	154.4	162.6	–	43140
With Profits (B)	127.1	133.8	–	44128

National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	Yield Gross	City-line
Managed	351.6	370.2	–	43163
UK Equity	441.3	464.6	–	43164
Overseas Eq.	350.7	369.2	–	43165
Americas	285.8	300.9	–	43166
Far East	385.0	405.3	–	43167
Property	193.9	204.2	–	43168
Fixed Int.	256.6	270.2	–	43169
Indexed Gilt	154.3	162.5	–	43170
Deposit	179.8	189.3	–	43171
Pension Fund (Accum Units)				
Managed	495.4	521.5	–	43173
UK Equity	579.5	610.0	–	43175
Overseas Eq.	583.0	613.7	–	43177
Americas	374.7	394.5	–	43179
Far East	639.0	672.7	–	43181
Property	244.0	256.9	–	43183
Fixed Int.	315.0	331.6	–	43185
Indexed Gilt	170.1	179.1	–	43187
Deposit	251.0	264.3	–	43189
NPI Pensions Management Ltd				
Managed Fund	1078.8	1098.1	–	43190

Prices Apr 2 Next dealing May 1

Norwich Union Asset Management Ltd
PO Box 140, Norwich NR3 1PP 0603 686787

	Bid Price	Offer Price	Yield Gross	City-line
NUAM Funds				
Managed Fund	71.6	75.4	–	43191

Prosperity Life Assurance Ltd
1 Sessions Hse Sq, Maidstone ME14 1XX 0622 690555

	Bid Price	Offer Price	Yield Gross	City-line
Initial Equity	153.0	162.0	–	42975
Accum Equity	218.0	230.0	–	43005
Accum Managed	226.5	239.0	–	43006
Accum Five Star	171.5	182.0	–	43011
Accum World	123.0	130.0	–	43013
Accum Lifetime	111.5	111.5	–	47139
Pens Acc Equity	237.0	250.0	–	43025
Pens Acc Managed	283.5	299.0	–	43026
Pens Acc Intl	214.0	225.5	–	43027
Pens Acc Deposit	196.0	207.0	–	43029
Pens Acc Five Star	189.0	199.5	–	43031

Providence Capital Life Assc. Co Ltd
2 Bartley Way, Hook, Hants RG27 9XA 0256 768888

	Bid Price	Offer Price	Yield Gross	City-line
UK Equity Acc	226.0	238.5	–	43411
UK Fixed Int Acc	170.5	179.9	–	43412
Intl Equities Acc	181.5	191.5	–	43413
UK Managed Acc	174.2	183.7	–	43414
Property Acc	226.9	239.4	–	43415
Money Acc	127.8	134.9	–	43416
Special Market Acc	139.6	147.3	–	43417
Japan Equity Acc	109.9	116.0	–	46760
North American Acc	109.4	115.5	–	43419
Pacific Acc	98.5	104.0	–	43420
Technology Acc	126.5	133.5	–	43421
Nat Resources Acc	55.0	58.1	–	43422
European Acc	102.0	107.7	–	43424
Residential Prop Acc	96.3	101.6	–	43425
Swiss Equities Acc	35.9	37.9	–	43426
Hong Kong Acc	63.4	66.9	–	43427
UK High Inc Eq Acc	74.8	79.0	–	43428
Int Fixed Interest Acc	56.3	59.4	–	46406
Int Managed Acc	57.7	60.8	–	46407
HIP Managed Acc	115.1	121.4	–	46751
HIP Managed II Acc	100.4	105.9	–	41928
HIP Managed III Acc	106.4	112.2	–	45881
Total Investment Bond				
UK Equity Initial		154.2	–	43429
UK Fixed Int Initial		116.5	–	43430
Intl Equities Initial		123.0	–	43431
UK Managed Initial		119.0	–	43432
Property Initial		156.1	–	43433
Money Initial		87.7	–	43434
Special Market Initial		108.7	–	43435
Japan Equity Initial		85.6	–	46762
North American Initial		85.3	–	43437
Pacific Initial		76.7	–	43438
Technology Initial		98.5	–	43439
Nat. Resources Initial		42.9	–	43440
European Initial		91.8	–	43442
Residential Prop Init		92.2	–	43443
Swiss Equities Initial		34.4	–	43444
Hong Kong Initial		60.7	–	43445
UK High Inc Eq Init		71.7	–	43446
Int Fixed Interest Init		54.6	–	46408
Int Managed Init		56.1	–	46409
HIP Managed Init		112.2	–	46752
HIP Managed II Initial		99.2	–	41927
HIP Managed III Init		106.2	–	45882
Broker Funds				
High Performance	73.0	77.0	–	43445
Towerhill Mngd Fd Acc	47.6	50.2	–	43447
YRA Executive Fd	95.2	100.4	–	43449
£ Global Growth Acc	133.2	140.5	–	47260

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 45p per minute peak and 34p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

	Bid Price	Offer Price	Yield Gross	City-line
CB Fund International (u)				
CB Fd Int.	$16.54		–	45441
CM Investment Serial Funds				
Global Grth NAV	$10.69		–	44477
Capel-Cure Myers Intnl Fd Sicav (u)				
Sterling Thinkers Bond	£9.39	9.90	–	45144
Sterling Thinkers Growth	£10.83	11.41	–	45146
US$ Thinkers Bond	$10.01	10.33	–	45147
US$ Thinkers Growth	$11.08	11.69	–	45149
Cedevalor (u)				
Croissance US$	$1754.2		–	42782
Rendement US$	$1655.57		–	42783
Rendement SFr	SFr1943.93		–	42809
Cortexa International (u)				
Cortexa Intnt	$113.21		–	44857
Credit Commercial de France				
Euro Smlr Cos Class A	Ecu13.70		–	44866
Euro Smlr Cos Class B	Ecu13.70		–	44867
CRI Actibonds (u)	$36.83		–	44868
Euro Prestige Cls A (u)	Ecu9.93		–	44869
Euro Prestige Cls B (u)	Ecu11.56		–	44482
Credit Suisse				
CS Money Mkt Fd US$	$1603.44	1603.45	–	44858
CS Money Mkt Fd DM	DM1309.70	1309.71	–	44859
CS Money Mkt Fd £	£1965.37	1965.37	–	44860
CS Money Mkt Fd Yen	Y128,619	128,620	–	44861
CS Money Mkt Fd Ecu	Ecu1072.78	1072.79	–	44808
CS Money Mkt Fd C$	C$1059.99	1059.99	–	44809
CS Prime Bond DM A	DM90.10	91.01	–	44862
CS Prime Bond DM B	DM108.58	109.68	–	47428
CS Short-Tm Bd $ A	$100.18	100.19	–	44863
CS Short-Tm Bd $ B	$131.49	131.49	–	46587
CS Short-Tm Bd DM A	DM96.32	96.72	–	44864
CS Short-Tm Bd DM B	DM120.82	120.83	–	46588
CS Ecu Bd A	Ecu98.70	99.69	–	46582
CS Ecu Bd B	Ecu133.27	134.61	–	46583

	Bid Price	Offer Price	Yield Gross	City-line
Target International Fountain Fund				
Global Managed	SFr2.68		–	46572
U K	SFr2.46		–	46573
Japan	SFr2.30		–	46574
Gold Shares	SFr1.16		–	46575
North American	SFr2.84		–	46576
Multicurrency Bond	SFr2.34		–	46577
North European	DM3.24		–	47365
Orient	SFr2.93		–	47996
Target International Ltd				
Intl Growth Fd	$21.62	22.8179	–	45840
Templeton Worldwide Investments				
Growth Portfolio				
Class A-1 $	$9.92		–	41215
Class A-2 $	$10.67		–	41217
Class A-3 $	$10.12		–	41221
Class B-1 $	$9.77		–	41235
Class B-2 $	$10.52		–	41236
Income Portfolio				
Class A $	$10.63		–	41237
Class B $	$10.76		–	41246
Top Brand Fund Intl-SICAV (u)				
Top Brand Fd Intl.	$13.95	14.64	1.37	45865
Inv Ad Warburg Asset Mngt London				
Transworld Bond Trust				
NAV	$10.97		–	45870
US Pacific Stock Fund (u)				
NAV	$16.57		–	45902
Unibank SA, Frontrunner I (u)				
Equities 92	Ecu75.92		–	47950
Global Bonds	DKr115.01		–	47951
Global Bonds	DM110.72		–	47952
Sterling Fund	£120.06		–	47953
Scandinavian Bond	DM108.18		–	44854
Danish Bonds	DKr110.30		–	44934
Unico Financial Services SA Lux				
DG Investment Bank Ltd				

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

JERSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Holding support

STERLING'S political risk was illustrated last week by its nervous decline as financial markets looked to this week's UK local elections in England and Wales for guidance on the timing of the next general election. Disappointing economic news, including a widening of the March UK current account deficit, also had an impact.

UK clearing bank base lending rate 12 per cent from April 12, 1991

If this trend continues, the market will be obliged to take another look at the assumed timetable for cuts in UK bank base rates. Wholesale rates point towards further reductions, but the mood is not quite as confident as it was.

Short sterling futures give a good guide. The price for June delivery touched a high of 89.13 on March 15, indicating that the three-month interbank rate was likely to be below 11 per cent by mid-June.

To calculate the expected level, subtract 89.13 from 100.00. This gives an answer of 10.87, or about 10⅞ per cent for the three-month offered rate in the cash market at delivery. This is not an exact prediction, because of technical costs involved in running a futures contract, but it indicates roughly where the market thinks it is moving.

The high point was touched a few day's before the Budget, on March 19, but a week later the mood of euphoria had changed. June short sterling fell to 88.57 on March 26, suggesting a cash rate of about 11½ per cent at delivery.

The price of 88.57 is now an important level, with dealers noting that there is then little in the way of further technical support until 88.35. A low of 88.55 was touched last Wednesday, but support was not decisively broken and by Friday the contract had rallied to 88.62 at the close.

Whether this continues to hold is likely to depend on the result of the local elections, and on sterling's performance in the ERM, nowadays two not unrelated factors.

£ IN NEW YORK

Apr.26	Close	Previous Close
£ Spot	1.6880-1.6890	1.6905-1.6915
1 month	0.83-0.81pm	0.80-0.78pm
3 months	2.33-2.30pm	2.32-2.28pm
12 months	7.08-6.98pm	7.05-6.95pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Apr.26	Previous
8.30 am	90.8	90.9
9.00 am	90.8	90.9
10.00 am	90.7	90.6
11.00 am	90.7	90.8
Noon	90.8	90.8
1.00 pm	90.8	90.8
2.00 pm	90.9	90.9
3.00 pm	90.9	90.9
4.00 pm	90.8	90.8

CURRENCY MOVEMENTS

Apr 26	Bank of England Index	Morgan** Guaranty Changes %
Sterling	90.8	-20.1
U.S Dollar	66.8	-12.1
Canadian Dollar	105.5	+2.4
Austrian Schilling	108.1	+10.6
Belgian Franc	109.8	-3.2
Danish Krone	108.1	+3.0
D-Mark	115.6	+22.4
Swiss Franc	112.2	+21.9
Dutch Guilder	112.3	+14.7
French Franc	102.0	-13.6
Lira	98.6	-19.7
Yen	136.7	+68.2

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Apr.25

CURRENCY RATES

Apr 26	Bank ‡ rate %	Special * Drawing Rights	European † Currency Unit
Sterling	–	0.789796	0.697064
U.S Dollar	6.00	1.33278	1.17804
Canadian $	9.66	1.53643	1.35651
Austrian Sch	7	16.4332	14.5123
Belgian Franc	10.50	48.0334	42.4064
Danish Krone	9½	8.90497	7.87813
D-Mark	6.50	2.33703	2.06216
Dutch Guilder	7.75	2.64237	2.32297
French Franc	10¼	7.89139	6.95691
Italian Lira	12½	N/A	1523.79
Japanese Yen	6	183.990	162.628
Norway Krone	8	9.06024	8.01479
Spanish Peseta	–	144.383	127.013
Swedish Krona	10.00	8.31521	7.34978
Swiss Franc	6.00	1.96318	1.73702
Greek Drach	19	N/A	223.274
Irish Punt	–	N/A	0.771069

‡ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for Apr.25

OTHER CURRENCIES

Apr 26	£	$
Argentina	16760.3 - 16787.1	9935.00 - 9945.00
Australia	2.1715 - 2.1735	1.2860 - 1.2870
Brazil	435.920 - 436.685	258.40 - 258.70
Finland	6.8745 - 6.8975	4.0790 - 4.0820
Greece	316.60 - 326.10	187.15 - 190.95
Hong Kong	13.1545 - 13.1675	7.7940 - 7.7960
Iran	120.70*	67.00*
Korea(Sth)	1217.10 - 1236.75	721.90 - 727.50
Kuwait	N/A	N/A
Luxembourg	60.75 - 60.85	36.00 - 36.10
Malaysia	4.6540 - 4.6620	2.7560 - 2.7580
Mexico	5055.90 - 5075.85	2997.00 - 3007.00
N.Zealand	2.8790 - 2.8840	1.7055 - 1.7075
Saudi Ar	6.3375 - 6.3825	3.7490 - 3.7510
Singapore	2.9915 - 2.9985	1.7715 - 1.7735
S.Af (Cm)	4.6950 - 4.7070	2.7860 - 2.7875
S.Af (Fn)	5.6025 - 5.6970	3.3220 - 3.3780
Taiwan	43.30 - 43.60	25.60 - 25.65
U.A.E.	6.2045 - 6.2505	3.6720 - 3.6740

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev.
Jun	96-07	96-08	95-08	95-29
Sep	95-15	95-16	94-18	95-06
Dec	94-26	94-26	94-00	94-17
Mar	94-08	94-08	93-16	93-30
Jun	-	-	-	93-00
Sep	-	-	-	92-10
Dec	92-24	92-24	91-30	92-14
Mar	-	-	-	-
Jun	93-23	-	-	93-13

JAPANESE YEN (IMM) Y12.5m $ per Y100

	Close	High	Low	Prev.
Jun	0.7218	0.7236	0.7210	0.7242
Sep	0.7194	0.7212	0.7188	0.7218
Dec	0.7182	0.7195	0.7175	0.7206
Mar	0.7181	-	0.7200	0.7205

DEUTSCHE MARK (IMM) DM125,000 $ per DM

U.S. TREASURY BILLS (IMM)

THREE-MONTH EURODOLLAR (IMM)

STANDARD & POORS 500 INDEX

SWISS FRANC (IMM)

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)

Strike Price	Calls May	Calls Jun	Calls Jul	Calls Sep	Puts May	Puts Jun	Puts Jul	Puts Sep
1.700	1.37	2.55	2.82	3.56	2.77	4.68	5.75	7.67
1.725	0.65	1.61	2.03	2.68	4.56	6.36	7.43	9.34
1.750	0.25	1.01	1.37	2.03	6.67	8.27	9.30	11.11
1.775	0.07	0.59	0.92	1.49	8.97	10.36	11.30	13.06
1.800	-	0.32	0.58	1.06	11.37	12.47	13.45	15.11
1.825	-	0.14	0.35	0.74	13.83	14.78	15.69	17.26
1.850	-	0.04	0.17	0.50	16.21	17.16	17.90	19.61

Previous day's open int: Calls 454,671 Puts 306,620 (All currencies)
Previous day's volume: Calls 7,224 Puts 12,461 (All currencies)

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Apr 26	Day's spread	Close	One month	% p.a.	Three months	% p.a.
Italy	1286.50 - 1297.00	1295.75 - 1296.25	5.80-6.40lirepis	-5.65	17.20-18.20dis	-5.46
Norway	6.7675 - 6.8200	6.8150 - 6.8200	2.15-2.50oredis	-4.09	6.55-7.05dis	-3.99
France	5.8770 - 5.9255	5.9175 - 5.9225	1.64-1.69oredis	-3.38	4.75-4.85dis	-3.24
Sweden	6.2170 - 6.2515	6.2400 - 6.2450	3.10-3.35oredis	-6.20	9.25-9.70dis	-6.07
Japan	137.65 - 138.25	138.10 - 138.20	0.25-0.27ydis	-2.26	0.62-0.65dis	-1.84
Austria	12.2700 - 12.3300	12.2850 - 12.2900	2.80-3.20grodis	-2.93	8.70-9.90dis	-3.03
Switzerland	1.4625 - 1.4825	1.4780 - 1.4790	0.31-0.34cdis	-2.64	0.88-0.93dis	-2.45
Ecu	1.1730 - 1.1820	1.1755 - 1.1765	0.29-0.24cpm	2.70	0.80-0.75pm	2.60

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

Apr.26	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C$	B Fr.	ECU
£	1	1.686	2.958	233.0	9.980	2.493	3.333	2185	1.940	60.80	1.433
$	0.593	1	1.754	138.2	5.919	1.479	1.977	1296	1.151	36.06	0.850
DM	0.338	0.570	1	78.77	3.374	0.843	1.127	738.7	0.656	20.55	0.484
YEN	4.292	7.236	12.70	1000.	42.83	10.70	14.30	9378	8.326	260.9	6.150
F Fr.	1.002	1.689	2.964	233.5	10.	2.498	3.340	2189	1.944	60.92	1.436
S Fr.	0.401	0.676	1.187	93.46	4.003	1	1.337	876.5	0.778	24.39	0.575
H Fl.	0.300	0.506	0.887	69.91	2.994	0.748	1	655.6	0.582	18.24	0.430
Lira	0.458	0.772	1.354	106.6	4.568	1.141	1.525	1000.	0.888	27.83	0.656
C$	0.515	0.869	1.525	120.1	5.144	1.285	1.718	1126	1	31.34	0.739
B Fr.	1.645	2.773	4.865	383.2	16.41	4.100	5.482	3594	3.191	100.	2.357
ECU	0.698	1.177	2.064	162.6	6.964	1.740	2.326	1525	1.354	42.43	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

EURO-CURRENCY INTEREST RATES

Long term Eurodollars: two years 7⅝-7½ per cent; three years 8-7⅞ per cent; four years 8¼-8⅛ per cent; five years 8½-8⅜ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

FT LONDON INTERBANK FIXING

(11.00 a.m. Apr.26) 3 months US dollars		6 months US Dollars	
bid 6⅛	offer 6¼	bid 6¼	offer 6⅜

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (4pm) — Treasury Bills and Bonds

Prime rate	9	One month	5.77	Three year	7.36
Broker loan rate	7½	Two month	5.79	Four year	7.39
Fed.funds	5⅞	Three month	5.76	Five year	7.68
Fed.funds at intervention	5⅞	Six month	5.97	Seven year	7.93
		One year	6.17	10-year	8.06
		Two year	6.90	30-year	8.22

LONDON MONEY RATES

Treasury Bills (sell); one-month 11⅛ per cent; three months 11 per cent; six months 10¾ per cent; Bank Bills (sell): one-month 11⅜ per cent; three months 11¼ per cent; Treasury Bills; Average tender rate of discount 11.1700 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day March 28 ,1991 . Agreed rates for period April 23,1991 to May 25 , 1991, Scheme I: 13.52 p.c., Schemes II & III: 13.71 p.c. Reference rate for period March 1,1991 to March 28 , 1991, Scheme IV&V: 12.472 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 13 from April 1 , 1991: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 8½ per cent; one-three months 11 per cent; three-six months 10½ per cent; six-nine months 10 per cent; nine-twelve months 9½ per cent; Under £100,000 8½ per cent from April 15,1991 . Deposits withdrawn for cash 5 per cent.

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

	Apr.26	change
3 Mth. Treasury Bill	11⅛	Unch'd
1 Mth. Bank Bills	11⅜	+⅛
3 Mth. Bank Bills	11¼	-⅛
TOKYO		
One month Bills	8⅛	Unch'd
Three month Bills	7⅞	+⅛
BRUSSELS		
One month	9	Unch'd
Three month	9¼	Unch'd
AMSTERDAM		
One month	9.055	+0.065
Three month	9.155	+0.055
Lombard	9.00	Unch'd
One mth. Interbank	8.925	+0.050
Three month	9.075	+0.025
PARIS		
Intervention Rate	9¼	Unch'd
One mth. Interbank	9¼	+⅛
Three month	9⅜	+⅛
MILAN		
One month	11⅞	Unch'd
Three month	11⅞	Unch'd
DUBLIN		
One month	10¼	+⅛
Three month	10¼	+⅛

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

Citibank Savings
St Martins Hse, Hammersmith Grove W6. 081-742 4941

Clydesdale Bank PLC
30 St Vincent Place, Glasgow G1 2HL 041 248 7070

Western Trust High Interest Cheque Acc
The Moneycentre, Plymouth PL1 1SE 0752 224141

Wimbledon & South West Finance PLC
114 Newgate St, London EC1 7AE 071-606 9485

NOTES – Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. Compounded Annual Rate. Int Cr: Frequency at which interest is credited to the account.

FINANCIAL TIMES STOCK INDICES

	Apr 26	Apr 25	Apr 24	Apr 23	Apr 22	Apr 19	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs.	84.82	85.09	84.90	84.90	84.84	84.84	85.88	82.17	127.4	49.18
Fixed Interest	94.16	94.18	94.31	94.26	94.34	94.62	94.84	90.59	105.4	50.53
Ordinary	1938.3	1943.9	1952.5	1965.8	1954.4	1980.1	2014.5	1606.3	2014.5	49.4
Gold Mines	143.6	145.2	144.5	143.5	142.5	140.2	179.7	127.0	734.7	43.5
FT-Act All Share	1197.40	1202.36	1205.74	1212.65	1207.44	1220.16	1232.32	987.46	1238.57	61.92
FT-SE 100	2471.3	2482.1	2488.6	2503.8	2490.8	2520.1	2545.3	2054.8	2545.3	986.9
FT-SE Eurotrack 100	1115.94	1122.55	1119.18	1122.04	1112.13	1122.00	1126.20	900.45	1126.20	900.45
FT-SE Eurotrack 200	1150.58	1157.65	1156.00	1163.98	1156.13	1167.51	1176.39	938.62	1176.39	938.62

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Over Fifteen Years

Undated

Five to Fifteen Years

BRITISH FUNDS—Contd

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

Continued on next page

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	FRIDAY APRIL 26 1991 US Dollar Index	% chg ($) since 31/12/90	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/90	Gross Div. Yield	THURSDAY APRIL 25 1991 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1991 High	1991 Low	Year ago (approx)
Australia (74)	145.04	+22.9	127.54	126.66	132.30	124.10	+21.9	5.54	142.33	124.57	124.16	129.28	121.93	145.04	112.74	127.69
Austria (19)	200.31	+1.9	176.14	174.93	182.71	181.74	+18.8	1.45	199.78	174.85	174.28	181.45	182.37	222.37	167.00	254.28
Belgium (60)	136.65	+3.4	120.16	119.32	124.64	121.49	+20.4	4.94	136.90	119.81	119.41	124.34	121.70	151.20	121.73	148.46
Canada (116)	138.82	+6.8	122.07	121.22	126.61	115.80	+6.0	3.42	138.99	121.64	121.23	126.23	115.99	141.10	126.49	130.37
Denmark (31)	229.62	-1.3	201.92	200.52	209.45	209.32	+14.5	1.60	230.39	201.64	200.98	209.25	209.32	270.56	217.74	244.63
Finland (21)	110.03	+6.7	96.76	96.09	100.37	94.23	+20.1	2.58	111.04	97.18	96.87	100.85	95.30	126.15	90.61	130.18
France (112)	132.03	+0.2	116.10	115.29	120.42	122.60	+16.6	3.56	132.86	116.28	115.89	120.66	122.75	152.26	121.85	163.32
Germany (88)	108.86	-2.7	95.72	95.07	99.29	99.29	+14.2	2.27	109.58	95.91	95.60	99.53	99.53	125.95	102.43	128.35
Hong Kong (48)	149.30	+22.6	131.29	130.38	136.19	149.42	+22.5	4.58	147.88	129.43	129.00	134.32	148.03	156.75	119.62	123.46
Ireland (16)	153.77	+3.6	135.22	134.29	140.26	142.08	+20.7	3.21	155.90	136.44	135.99	141.59	143.67	182.46	132.88	182.50
Italy (91)	76.80	-1.9	67.53	67.06	70.05	74.33	+12.7	3.31	78.31	68.54	68.31	71.12	76.36	88.23	72.05	100.42
Japan (452)	137.85	+10.5	121.22	120.38	125.76	120.38	+12.5	0.71	137.42	120.27	119.87	124.82	119.87	146.97	118.35	135.25
Malaysia (33)	235.12	+10.8	206.76	205.32	214.46	249.66	+13.1	3.03	234.24	205.01	204.33	212.75	248.99	247.78	192.83	207.68
Mexico (12)	906.88	+55.2	797.47	791.95	827.22	2976.60	+57.7	0.23	914.96	800.78	798.14	831.03	3003.12	931.33	534.45	407.87
Netherland (40)	136.98	+2.3	120.45	119.62	124.95	123.54	+19.8	4.21	138.92	121.58	121.18	126.17	124.68	145.73	125.70	136.10
New Zealand (14)	49.77	+14.7	43.77	43.47	45.40	45.10	+15.0	7.58	49.38	43.21	43.07	44.85	44.85	52.31	41.18	60.88
Norway (30)	185.21	-9.3	162.87	161.75	168.95	171.39	+5.1	1.76	187.59	164.18	163.64	170.38	172.95	223.24	182.24	219.87
Singapore (25)	203.51	+27.8	178.96	177.72	185.63	166.23	+30.3	2.02	201.72	176.54	175.96	183.21	165.23	208.25	151.63	182.45
South Africa (60)	205.06	+12.1	180.32	179.07	187.04	150.14	+10.2	3.78	205.95	180.25	179.65	187.05	150.81	208.54	173.00	175.02
Spain (41)	152.74	+8.8	134.31	133.38	139.32	125.02	+23.1	4.50	154.49	135.21	134.77	140.32	126.11	171.12	131.51	151.84
Sweden (27)	176.70	+10.8	155.39	154.31	161.19	163.30	+23.0	2.66	178.35	156.09	155.58	161.99	164.49	204.12	146.60	186.50
Switzerland (65)	91.66	+3.1	80.60	80.04	83.62	84.01	+19.5	2.48	92.49	80.95	80.69	84.02	84.04	100.67	82.17	91.03
United Kingdom (295)	167.59	+1.2	147.37	146.33	152.85	147.37	+15.8	4.82	169.11	148.01	147.51	153.59	148.01	187.44	156.27	140.04
USA (524)	153.69	+15.3	135.15	134.22	140.20	153.69	+15.3	3.17	153.80	134.61	134.17	139.70	153.80	158.24	125.95	133.11
Europe (938)	135.65	+0.8	119.29	118.46	123.74	121.46	+16.4	3.89	136.89	119.80	119.41	124.34	122.00	151.52	125.50	136.62
Nordic (109)	172.28	+2.7	151.50	150.45	157.15	152.11	+16.8	2.12	173.56	151.89	151.39	157.63	152.83	200.81	155.55	187.08
Pacific Basin (646)	138.23	+11.4	121.55	120.71	126.09	121.18	+13.3	1.06	137.67	120.49	120.10	125.05	120.58	145.92	117.86	134.45
Euro-Pacific (1582)	137.51	+6.6	120.92	120.07	125.42	122.16	+14.5	2.21	137.69	120.51	120.10	125.05	122.02	147.66	121.29	135.66
North America (640)	152.69	+14.8	134.27	133.36	139.30	151.14	+14.7	3.18	152.80	133.73	133.31	138.81	151.26	157.04	125.91	132.85
Europe Ex. UK (641)	116.21	+0.6	102.19	101.50	106.03	106.30	+16.8	3.18	117.27	102.63	102.31	106.53	106.78	129.80	106.85	132.48
Pacific Ex. Japan (194)	141.88	+22.3	124.59	123.74	129.25	126.53	+22.2	4.86	139.74	122.30	121.92	126.94	124.92	141.68	111.40	124.18
World Ex. US (1770)	138.67	+7.0	121.94	121.11	126.49	122.89	+14.3	2.26	138.86	121.53	121.14	126.13	122.78	148.16	122.32	136.04
World Ex. UK (1999)	140.29	+11.1	123.37	122.52	127.98	130.97	+14.6	2.33	140.32	122.81	122.41	127.46	130.86	145.77	120.06	133.37
World Ex. So. Af. (2234)	142.32	+9.9	125.15	124.30	129.83	132.46	+14.7	2.58	142.48	124.70	124.30	129.42	132.42	148.66	122.92	133.70
World Ex. Japan (1842)	146.63	+9.7	128.94	128.06	133.77	139.07	+15.8	3.51	147.11	128.75	128.34	133.63	139.30	152.63	126.69	134.62
The World Index (2294)	142.70	+8.9	125.49	124.62	130.18	132.59	+14.7	2.69	142.86	125.03	124.63	129.77	132.55	149.01	123.28	133.95

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent change with effect 29/4/91: Addition: Greencore (Ireland). Danish market closed April 26.

T.C.H. Investments N.V.

NOTICE IS HEREBY GIVEN to holders of BEARER Curacao Depositary receipts each representing one-tenth of one class A share of T.C.H. Investments N.V. that the Annual General Meeting of Shareholders of T.C.H. Investments N.V. will be held at 6, John B. Gorsiraweg, Willemstad, Curacao on May 21, 1991 at 15.00 p.m. The agenda for the meeting and the Annual report 1990 are available for holders of Depositary Receipts at the office of Pierson, Heldring & Pierson N.V., Rokin 55, 1012 KK Amsterdam, where vouchers for entry to the meeting may be obtained against delivery on or before 14th May, 1991 of Depositary Receipts and proxies to vote may be obtained for each 10 Depositary Receipts.

CARIBBEAN MANAGEMENT COMPANY N.V.
Willemstad, Curacao
April 29, 1991

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 45p per minute peak and 34p off peak, inc VAT

AMERICANS

Market Cap. £m	Stock	Price £	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
3,876.4	Abbott Laboratories	38½	0.8	1.9	10.4	Fb My Ag Nv	1503
159.0	Allegheny & W 1c	384p	-1.3	5.8	–	–	–
1,038.9	Amdahl 5c	945p	-2.8	0.6	31.1	Mr Mr Jn Ag	–
5,268.9	Amer. Cyanamid $5	34½	5.7	2.6	27.2	Mr Je Se De	–
8,344.4	Amer. Express 60c	17¼	7.6	3.1	31.12	Fb My Ag Nv	1594
34,392.2	American T. & T. $1	22¼	4.1	3.5	27.3	Fb My Ag Nv	1597
14,583.1	Ameritech $1	37¾	3.8	4.9	28.3	Fb My Ag Nv	–
–	Asiamerica Equities	263p	3.1	–	–	–	–
4,866.7	BankAmerica $1	22½	1.8	3.2	18.2	Fe My Sp De	1744
2,345.9	Bankers N Y $1	28¼	-2.2	10.2	27.9	Ap Jy Oc Jan	1745
11,131.8	Bell Atlantic $1	28¼	2.3	4.9	4.7	Fe My Au No	–
14,539.9	BellSouth Corp.	30¼	4.8	5.2	5.4	Fe My Au No	–
625.9	Bethlehem Steel $8	8¼	-2.2	2.9	6.2	Mar Jun S D	1821
528.1	Bowater Inc	1484p	0.3	4.8	6.6	Oc Ja Ap Jy	1884
728.1	Brunswick 75c	8¼	-2.9	3.2	5.2	F My Au N	1989
3,701.2	CPC Intnl. 25c	49½	-2.8	2.4	26.6	Ja Ap Jy Oct	2263
155.1	California Engy	852p	3.3	–	–	–	–
5,033.2	Campbell Soup 15c	47½	-3.9	1.4	4.1	Oc Ja Ap Jy	2050
1,457.8	Chase Manhattan $1⅓	11¼	-2.7	6.4	26.4	Fb My Ag Nv	2109
1,612.5	Chrysler $6¼	8¼	-1.5	4.4	13.3	Apr Jul S D	2135
[illegible]	Citicorp $1	9¼	0.7	6.3	23.10	My Au N F	2141
[illegible]	Colgate-Palmolive $1	47¼	-2.8	2.7	22.4	F My Au N	2184
328.6	Cont'l Bank Corp $4	828p	7.9	7.2	31.5	Oc Mr Ja Sp	–
–	Corporate Data Sciences	85p	18.1	–	–	–	–
758.7	Dana Corp. $1	18½	7.6	5.1	26.2	Mr Jn Se De	2306
291.4	Data General	1056p	26.0	–	–	–	–
5,093.5	Dun & Bradstreet $1	28½	5.1	4.5	13.2	Mr Jn Sp De	–
1,149.2	Eaton Corpn. 50c	35¼	6.0	–	2.2	–	2410
369.8	Echlin Inc	6¼	-2.8	6.2	2.4	Jn Ap Jy Oc	3046
2,858.9	FPL Group 1c	17¼	2.9	7.9	25.2	Mr Jn Sep Dec	–
2,321.8	Fluor Corp 62½c	28[illegible]	3.6	0.7	22.3	Ja Ap Jy Oc	2609
[illegible]	Ford Motor $1	19¾	......	3.0	25.1	Mr Jn S D	2615
[illegible]	Gen. Elect. 63c	42½	-1.0	2.8	1.3	Ja Ap Jy Oc	2675

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

For Telecommunication see Gresham Telecomputing

ELECTRICITY

ENGINEERING

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 45p per minute peak and 34p off peak, inc VAT

LEISURE

Market Cap. £m	Stock		Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
72.1	Airtours 10p	β	435	7.1	2.5	14.1	–	1540
17.7	♠Allied Leis. 5p	α	181	–1.0	6.4	11.2	Nov May	4643
85.9	Anglia TV	α	195	–2.0	6.3	2.4	Aug Feb May	1611
14.6	Avesco 1p	α	26	4.0	7.7	11.2	Oct Apr	1710
1.54	♠BCE Hldgs 5p	β	5½		–	30.1	–	1719
16.9	Barr & W.A.T. 'A'	β	170	1.2	8.0	10.9	Oct July	1764
26.3	Boosey & Hawkes	β	670xd	–2.2	3.3	15.4	May Nov	1873
9.90	♠Border T.V.	β	38½	–2.5	7.3	11.2	Oct Mar	1878
30.5	Brent Walker 10p	α	59	–20.3	–	22.10	July Jan	1945
26.3	Do 8pc Cr Cm Rd Pf £1	γ	26	–13.0	40.0	5.11	Jan July	1944
57.8	Buckingham Int'l. 10p	α	48	–4.0	5.8	2.4	Jan May Sep	3152
35.4	Campari Int. 20p	β	339	9.4	4.3	11.3	Sep Apr	2048
134.3	Capital Radio 2½p	α	200	–2.9	3.5	18.12	Jan July	2068
893.0	Carlton Comms 5p	α	451	–1.7	4.2	11.2	Apr Aug	2073
122.3	Do. 6.5p Prf 5p	γ	75	–1.3	11.6	19.11	Jan July	4896
15.0	♠Castle Comms. 5p	β	240	–1.2	4.7	11.3	May Jan	2079
150.7	Central ITV	β	569	–0.2	6.7	8.10	Nov Apr	2091
8.96	Chiltern Radio 10p	β	138	–0.7	4.6	10.12	July Feb	2541
21.9	Chrysalis	β	79		3.4	11.2	Apr Aug	2134
73.2	Cityvision 5p	α	52	2.0	2.6	15.4	Jan Nov	2150
3.75	Classic Th'tres Ir0.20	γ	5½	10.0	–	–	–	1383
286.3	Compass Group 5p	α	430	–4.4	3.2	11.2	Jul Mar	1687
1,968.1	Euro Disney Fr10	α	1143	–2.7	–	–	–	5572
36.7	European Leis. Ir25p	γ	22	–4.3	10.5	19.11	Jan Jul	1415
18.2	Ex Lands 10p	α	36	12.5	–	4'88	–	2513
12.7	♠Expedier 20p	α	49	–4.8	3.4	19.11	January	5932
19.2	Fairline Boats 10p	β	548	–1.8	5.1	10.12	Jan July	2534
412.1	First Leisure	α	265	–2.9	2.5	25.2	Oct Apr	2569

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRANSPORT—Contd

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST—Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

Market Cap. £m	Stock		Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
1,049.1	Anglian Water £1	α	286	–3.4	5.7	14.1	Mar Oct	5402
10.9	Anglian WaterSharesLa 30%¾	γ	£109		4.7	30.11	July Jan	3264
1,277.4	North West Water £1	α	289	–2.4	5.8	14.1	Mar Oct	5422
254.1	Northumbrian Water	β	318	–1.2	5.5	14.1	Mar Oct	5412
1,210.1	Severn Trent £1	α	272	–5.2	5.8	14.1	Mar Oct	5432
553.4	Southern Water £1	α	268	–3.6	5.9	14.1	Mar Oct	5442
440.1	Sth West Water £1	α	290	–1.0	6.5	14.1	Mar Oct	5452
1,444.6	Thames Water £1	α	308		5.4	14.1	Mar Oct	5462
569.7	Welsh Water £1	α	324	–2.1	5.7	14.1	Mar Oct	5472

[illegible]

OIL AND GAS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

Market Cap. £m	Stock		Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	♥Croesus Mining N.L.		3		–	–	–	4825
–	♥Delta Gold 25c		31	10.7	–	–	–	–
153.1	♥Dominion Mining		39	5.4	4.6	–	Dec June	5084
–	Doral Resources		14		3.1	–	November	2365
0.44	♥Dragon Mining		2		–	–	–	4844
11.9	♥Emperor Mines		24		–	–	–	2460
–	♥Endeavour 20c		4	33.3	–	–	–	2462
133.4	♥GM Kalgoorlie 5c		28	1.8	–	3.10	–	2720
15.2	♥Gwalia Cons. 20c		44	–4.3	8.0	–	–	4842

[illegible]

Market Cap. £m	Stock		Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
17.8	♥Emerald West	γ	50		–	–	–	–
0.92	♥Kells Mins. 5p	γ	38		–	–	–	3741
7.69	♥Kenmare	γ	16	–8.6	–	–	–	1453
0.81	♥Malaga Resources	γ	15		–	–	–	1185
–	♥New Sabina Res C$1		18		–	–	–	–
9.21	Northgate Expl. C$1		73	4.3	–	10.77	–	–
4.04	North West Expl.		12		–	–	–	–
–	♥Nor-Quest Res.		10	5.3	–	–	–	–
–	Oryx Gold Hldgs.		93	3.3	–	–	–	3686
1.39	♥Ovoca Gold IR 2p	γ	28		–	–	–	1470
6.73	Plateau Mining 20p	β	34	–7.7	–	–	–	3407
5,445.6	RTZ 10p	α	550	1.3	4.7	2.4	Dec Jul	3880
–	♥Thorco Res. Inc.		9	20.0	–	–	–	–
3.75	♥Vizcaya Hldgs 5p	β	7		–	–	–	4193
11.7	♥Young Group 10p	β	125		5.5	2.4	May Oct	5080

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ♣ Not comparable
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ǁ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock		Price	Change
Craig & Rose £1	β	650	
Finlay Pkg. 5p	β	29	–3.3
Holt (Jos) 25p	β	1666	3.9
Helton Hldgs.	γ	43	

IRISH

Stock	Price	Change
Cap. 8½% Ln. 1991	£99¼	0.1
9pc Cap Ln. 1996	£98¾	–0.1
Fin. 13% 97/02	£115	
Arnotts	160	
IRG	155	
United Drug	160	–5.9

TRADITIONAL OPTIONS

3-month call rates

Industrials

Stock	p
Allied-Lyons	46
Amstrad	7
Astec (BSR)	6
BAT	60
BOC Grp.	31
BTR	33
Barclays	38
Blue Circle	24
Boots	30
Bowaters	53
Brit Aerospace	56
British Steel	12
Brit. Telecom	29
Cadburys	33
Charter Cons.	45
Comm Union	44
Courtaulds	32
Eurotunnel	50
FKI	6
FNFC	20
Gen Accident	48
GEC	17
Glaxo	80
Grand Met	62
Guardian	19
GKN	31
Hanson	19
Hawker Sidd	39
ICI	80
Ladbroke	22
Legal & Gen	36
Lex Service	20
Lloyds Bank	30
Lucas Inds.	13
Marks & Spencer	21
Midland Bk	18
Nat West Bk	27
P & O Dfd	51
Racal Elect	18
RHM	28
Rank Org Ord	63
Ratners	17
Reed Intnl	36
Sears	8½
SmKl. Beecham A	58
TI	45
TSB	12
Tesco	21
Thorn EMI	64
Trust Houses	23
T&N	15
Unilever	60
Vickers	19
Wellcome	40

Property

Stock	p
Brit Land	30
Control Secs	3
Land Securities	45
MEPC	48
Mountleigh	8½

Oils

Stock	p
Aviva Petlm	3
Brit Petroleum	28
Burmah Castrol	49
Conroy Petlm	10
Gaelic Res	1
Premier	6
Shell	41
Tuskar Res	2
Ultramar	30

Mines

Stock	p
Lonrho	21
RTZ	48

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,150 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service:

Deletions: Gates (F.G.) (Motors)
Sutcliffe Speakman (Chemicals)
Tern (Property)

4:00 pm prices April 26

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1991 High	1991 Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	9¼	AAR Corp	0.48	0.04	12	763	13¾	13⅛	13⅜	−½
28¾	27⅝	A L Labs A	0.16	0.01	31	290	28¾	28½	28⅝	−⅛
54⅛	40⅞	AMP Inc	1.44	0.03	19	1376	52¼	51½	51½	−⅝
65⅛	44¼	AMR			19	4213	64	63⅛	63¼	−1
2⅝	1¼	ARX			3	52	2½	2⅜	2½	+⅛
48¼	41½	ASA	3.00	0.07	13	172	45	44⅝	44⅞	+⅛
54	39¼	Abbott Lab	1.00	0.02	22	[illegible]	51½	50¾	51⅛	
13⅝	9⅞	Abitibi Pr	0.50	0.04	26	60	13⅝	13⅜	13⅜	+⅛
11⅞	10⅞	ACM Gvt In				393	u11⅞	11¾	11¾	−⅛
9⅝	8¾	ACM GvOpp				178	u9⅞	9¾	9⅞	
9⅛	8¼	ACM Gvt Sp	1.01	0.11		366	u9¼	9	9⅛	+⅛
11	9⅞	ACM Gvt Se x				314	10⅞	10¾	10⅞	−⅛
8¼	7⅝	ACM Man				469	u8¼	8	8⅛	+⅛
12⅝	11⅞	ACM Managd				190	u12⅝	12½	12⅝	
7¼	4⅞	Acme Cleve	0.40	0.06	15	7	6⅝	6⅜	6½	
6	4⅛	Acme Elect			16	4	5	4⅞	4⅞	−⅛
40	22⅝	Acuson			24	501	33⅞	33	33¼	−⅝
17⅞	14⅛	Adams Expr	0.48	0.03	0	53	17⅛	17	17⅛	+⅛
20⅛	18⅞	Adobe12Pf x	2.40	0.12		6	19½	19½	19⅛	−⅛
9¼	7	Adobe Res			21	38	8⅛	8	8	
35⅛	18	Ad Micro				357	32¾	32	32	−⅛
14⅛	4⅞	Ad Micro P	3.00	0.24	13	7752	12⅞	12	12⅛	−½
[illegible]										

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

[illegible]

- X - Y - Z -

1991 High	1991 Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Chng
60¾	35¼	Xerox	3.00	0.05	10	2314	59¼	57¾	58⅝	+½
49¼	43¼	Xerox4.125				2	48½	48½	48½	
21¼	14⅛	Xtra 1.94				10	20⅛	20⅛	20½	-⅛
24⅞	14⅛	Xtra Corp	0.72	0.03	11	92	22⅛	21⅞	21⅞	-½
1½	⅛	Zapata			0	306	¼			
9⅞	6⅛	ZenithElec			3	848	7½	7	7⅛	-¼
18¼	12	Zenith Nat x	1.00	0.06	34	13	16⅞	16⅝	16⅞	-¼
6	4½	Zemix Inc x	0.87	0.15		46	5⅝	5⅛	5⅛	
14½	10⅞	Zero Corp	0.72	0.05	14	27	14	13⅞	13⅞	
41¼	29½	Zurn Ind	0.88	0.02	14	134	36½	35⅝	36	+¼
13½	10¼	Zweig Fund				194	12⅝	12⅜	12⅝	+⅛
9¼	6½	Zweig Totl				620	u9¾	9⅝	9⅝	-⅛

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices April 26

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							
Cal Engy		30	447	13⅛	13⅛	13¼	
Calprop		1	z100	4	4	4⅛	
Carnwl A		15	694	24¼	23⅛	23⅞	-¼
Can Marc		9	3	11¼	11¼	11¼	
Chambers		44	15	25	24⅛	25	
Champion		99	76	5	4⅞	5	
Giant FdA	0.60	14	631	29	28⅞	28⅞	-⅛
Giant Yel		0	27	4	3⅞	4	+⅛
Glatfltr	1.20	13	348	u53	52⅛	52⅛	+⅛
Greiner	0.20	17	16	14¼	14	14⅛	-⅛
GRI Corp		13	5	3⅛	3⅛	3⅞	+¼
Gulf Cda	0.40	12	46	8⅝	8½	8½	
Odetics A		15	32	6¼	5⅞	5⅞	-⅛
Olsten	0.24	18	276	15¼	14⅞	15⅛	-⅛
OMI Corp	0.10	13	393	6⅝	6⅜	6⅝	+⅛
WIRET	1.48	15	166	17⅝	17½	17½	
Worthen		6	70	14	13⅝	13⅞	-¼
Xytronix		30	47	17¾	17½	17¾	-⅛

NASDAQ NATIONAL MARKET

4:00 pm prices April 26

[illegible]

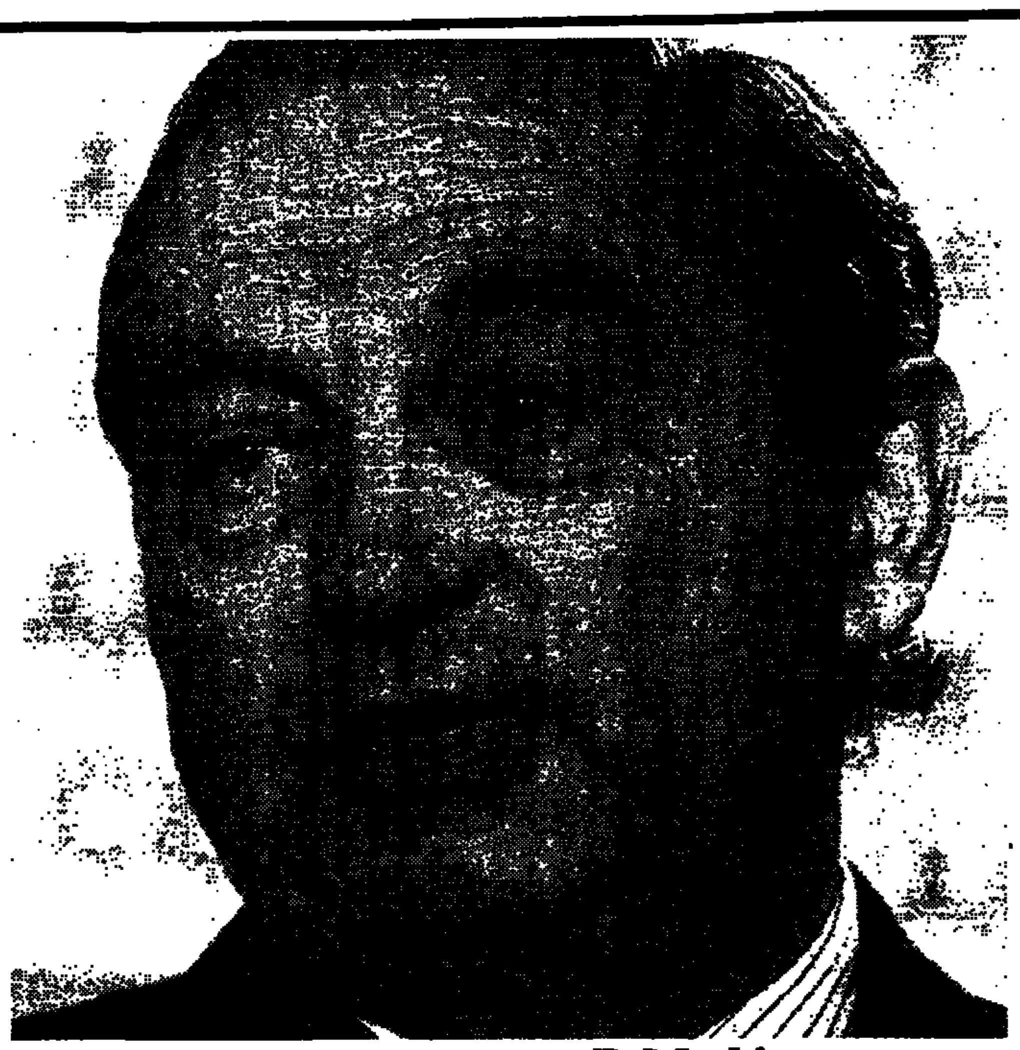
- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		50	1760	23¼	23	23½	-¼
XL Data		9	265	6¼	6⅛	6¼	-⅛
Xoma Corp		17	3601	28¼	27½	28	+1
YankeeEnS	1.52	17	208	u23⅛	22	23	
Yellow Fr	0.94	13	168	30⅛	29⅞	30⅛	+¼
York Rsch		19	1377	18½	18¼	18½	+1½
ZionsUtah	1.44	9	5	42½	42½	42¼	

MONDAY INTERVIEW

Navigating in turbulent waters

Karl Otto Pöhl, president of the Bundesbank, talks to **David Marsh**



'Germany requires a stronger D-Mark'

High in the slab-like Bundesbank headquarters in Frankfurt, an anguished-looking post-impressionist portrait hangs above the desk of Mr Karl Otto Pöhl, the president of Germany's central bank.

The lugubrious painting, by the pre-war artist Karl Hofer, could hardly be in greater contrast to the bonhomie characteristically radiated by the man who enjoys his reputation as Europe's most powerful central banker.

Yet, as the Bundesbank faces political and economic turbulence unmatched since 1945, the painting gives a clue to the challenges on all sides.

The Bundesbank enjoys statutory independence from government. It has become the model for the European central bank which would eventually be set as the centrepiece of European monetary union (Emu). But perhaps the chief complexity facing Mr Pöhl is that his own autonomy – both vis-à-vis the politicians in Bonn, and in the decision-making apparatus of the bank itself – is clearly circumscribed.

During the past year, the task of navigating between these limits has occasionally defeated even Mr Pöhl's tactical skills, honed during two decades operating the levers of German monetary power, the past eleven and a half as Bundesbank chief.

He heads the institution responsible for extending the D-Mark to east Germany last year. But the unsentimental Mr Pöhl never regarded German unification as a great priority – and, in far more realistic tones than the government, consistently warned last year of the severe economic and social problems facing the east.

In an interview last week, the Bundesbank chief, bronzed after his Easter skiing holiday in St Moritz, showed every sign of standing up to the strains. Perhaps partly because he has two children aged 10 and 12, he looks younger than his 61 years. Interestingly enough for a person whose Cassandra-like forecasts over east Germany have been largely vindicated, Mr Pöhl believes that once the difficult transition is over, Germany will quickly extend its position as Europe's most powerful economy.

With characteristic jauntiness, Mr Pöhl displays one piece of evidence for his settled frame of mind. He brings out a photograph of himself and Mr Nicholas Brady guffawing at a joke during the US treasury secretary's visit to the Bundesbank earlier this month. Mr Brady, whom Mr Pöhl knows well from the former banker's time at Dillon Read, came to Frankfurt partly to complain about Germany's tight money policy. On the back of the photograph, ready for presentation to Mr Brady as a memento, Mr Pöhl has scrawled sardonically: "Serious men, serious times."

Mr Pöhl does not think much of the US administration's arguments, tailored above all to easing the US recession rather than meeting inflationary pressures in the still-buoyant west German economy. He believes that the D-Mark is somewhat undervalued – and that, especially if other countries in the European Monetary System continue to cut their interest rates, the German currency will soon move up again.

"The trend at the moment on the foreign exchange market is going in the wrong direction. The US, which is trying to come out of recession, does not need a dollar revaluation. And Germany, which is still experiencing over-heating demand in some quarters, requires a stronger D-Mark, not a weaker one," he says.

The German central bank chief made clear again at yesterday's gathering of the Group of Seven industrial countries in Washington that there will be no cut in D-Mark interest rates for the moment.

The calls from the US represent just one of the conundrums taxing Mr Pöhl. Pressure from European partners, with France in the vanguard, to accelerate the move to Emu has forced the Bundesbank to campaign against a premature dismantling of its monetary powers.

Meanwhile, the continuing slide of the east German economy has badly unhinged German fiscal policy, requiring DM140bn in public sector transfers this year, and has also been an important factor behind the D-Mark's recent weakness. East German restructuring is "an enormous problem", Mr Pöhl says.

But especially now that the government has at last decided, somewhat late, to raise taxes to fund transfers to the east, he leaves no doubt that the task is manageable. "The former East Germany was only a small country – less than 10 per cent of West Germany's Gross National Product. The problem is that these transfers should have been financed to a greater extent through cuts in public spending in west Germany."

Mr Pöhl's headaches at home have been aggravated by a battle with the German federal states (Länder) over streamlining the structure of the Bundesbank. Mr Pöhl wants to push this through in a reorganisation made necessary by German unification. But he is at odds with a sizeable minority of the central bank's 18-man policy-making council, on which Länder appointees have most votes.

Mr Pöhl's relationship with the rest of the board, a mix of 11 regionally-appointed state central bank presidents and seven Frankfurt-based directorate members, makes for a fascinating case study in behavioural psychology. With just one vote out of 18, Mr Pöhl cheerfully concedes his dependence on his colleagues. Strictly speaking, he says he cannot buy a postage stamp without consulting them. But he regards many council members with affectionate disdain. When in the limelight at international monetary meetings, Mr Pöhl plainly enjoys not having to think about them at all.

PERSONAL FILE

1929 Born December 1 in Hanover.
Early 1950s Studied economics at Göttingen university.
1960 Department head, Ifo economic research institute.
1961-67 Economic journalist in Bonn.
1968-69 Board member, German Banking Association.
1970-72 Department head, economics ministry and chancellor's office.
1972-77 State secretary, finance ministry.
1977-79 Vice-president of Bundesbank.
1980 Bundesbank president.

Mr Reimut Jochimsen, a professor and former state economics minister, now president of the regional central bank of North Rhine-Westphalia, is the newest of the 11 state bank chiefs on the council. He is also one of the most independent-minded, leading what some Bundesbank officials call "a rebellion".

Mr Jochimsen has irritated Mr Pöhl by writing to Chancellor Helmut Kohl to oppose his plan to cut the number of state central banks to eight. Mr Jochimsen admits of the increasingly acerbic dispute – which Mr Kohl will now have to mediate – "For the image of the Bundesbank and the central bank council, this is not very helpful." None the less, Mr Jochimsen is a enough of a heavyweight to lecture Mr Pöhl on constitutional niceties: "Assessing the direction of the structure of the federal government and the Länder is not for a top Bundesbank functionary to decide."

Mr Pöhl's own relationship with Mr Kohl, always cool, took a turn for the worse last month when the Bundesbank chief termed "a disaster" the consequences of last year's introduction of the D-Mark into east Germany.

Mr Pöhl was not told about the chancellor's sudden decision in February 1990 to propose speedy currency union with east Germany. The Bundesbank's advice to the government at least to consider the need for tax increases last year went unheeded – differences which have left their mark, despite efforts from both sides to smooth over the traces.

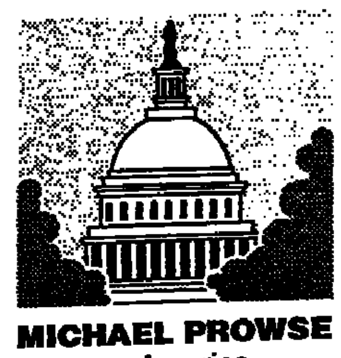
Two days after his unguarded comments on March 19 in Brussels, which sparked anger in Bonn and depressed the D-Mark on the currency markets, Mr Pöhl sent a letter to Mr Kohl saying he regretted the uproar. Trying to assure the hyper-sensitive chancellor that the Bundesbank was not attacking him, Mr Pöhl stuck to the contention that east Germany was indeed experiencing a "disaster" – but said he should not perhaps have admitted it.

Mr Pöhl says that his stewardship at the Bundesbank has taught him above all that independence can bring unpopularity. However, recent pressure has, if anything, probably strengthened his public image. "Pöhl is doing the right thing," says Mr Karl Schiller, the 80-year-old former Social Democrat economics minister. Somewhat ominously for France, Mr Schiller warns that "the greatest restructuring crisis of all times" in east Germany will inevitably delay the day when the D-Mark is abandoned as part of the establishment of a single European currency.

Mr Pöhl himself said with some satisfaction last week that a compromise Luxembourg plan to delay until 1996 the target date for setting up a European central bank – two years later than the French government desires – was "a step in the right direction".

Significantly, by 1996 Mr Pöhl's second eight-year term at the Bundesbank (it expires at the end of 1995), will have come to an end. A Bundesbank president may one day have to transfer control over German money to a European central bank. But his name is highly unlikely to be Karl Otto Pöhl.

The recovery sends its apologies



MICHAEL PROWSE on America

The reaction of financial markets to the US recession reminds me of the small boy who was given a pile of dung for Christmas. An incurable optimist, he dived into the smelly heap, shouting: "There's gotta be a pony in here somewhere."

But it is not just Wall Street that ought to be reprogramming its errant computers. In the light of depressing recent figures, the White House forecast prepared by Dr Michael Pangloss (or is it Boskin?), also looks like an exercise in self-deception. In January, the Bush administration, confident perhaps that victory in the Gulf would revive the economy, said the worst of the recession was over. Gross National Product would fall at an annual rate of only 1.3 per cent in the first quarter and then start to recover. In the event, real output fell at an annual rate of 2.8 per cent, nearly twice as fast as at the end of last year. Rather than easing off, the recession appears to have gained momentum.

The White House said the downturn would be one of the shortest in post-war history. Wheels turn slowly in academia, but the wise men entrusted to chart the contours of the business cycle finally delivered their verdict last week. The National Bureau of Economic Research's dating committee identified July as the month when the US downturn began. The recession has thus already been running for nine months: it is shaping up as an average rather than a particularly mild contraction. And contrary to the claims of many commentators, including Mr Alan Greenspan, the Federal Reserve chairman, it was not caused by President Saddam Hussein. His disruption of world oil markets merely accelerated a decline whose ultimate roots lie in the excesses of the 1980s.

With industrial production, employment, retail sales and order books still falling, optimists are pinning their hopes of imminent recovery on three main indicators: the stock market boom that took the Dow briefly past 3,000; signs of recovery in the housing market; and a fall in the number of people claiming unemployment insurance.

The stock market has been right more often than wrong. Forecasters, therefore, should respect its collective wisdom. But it is a mirror of prevailing sentiment rather than an independent indicator: it is telling us that investors are more confident, not confirming their grounds for confidence.

The tentative signs of recovery in housing also warrant attention. Construction and home sales, which respond quickly to falling interest rates, are usually one of the most reliable forward indicators. The trouble is that if you blink you might miss this upturn. Housing starts in March fell back after a sharp gain in February. They are 6 per cent above the January trough but still 31 per cent lower than a year ago – when the market was already weak. Building permits and sales of existing houses have edged forward in recent months. Estate agents in some areas talk excitedly of more custom. But the most the honest forecaster can claim is that the foundations for a housing recovery are being laid.

Analysts scrutinise unemployment claims closely because they are one of the few indicators published weekly. In the last week of March and the first week of April, claims fell by 92,000 to 451,000, well below recent highs. This fuelled speculation that April's employment report (to be released this Friday) would be good. Alas, the most recent figures show claims rebounding to the 500,000 mark that historically has signalled sharp recession. It is thus too early to conclude that the labour market is poised for recovery.

The first quarter GNP figures were encouraging in one respect: the rate of decline of consumption spending, two-thirds of economic activity, was slower than in the fourth quarter of last year. On the other hand, export growth, adjusted for inflation, has slowed to a standstill – a reflection of recessionary tendencies *in the rest of the* world. And US business investment, resilient last year, has begun to fall sharply. The recession is thus changing its character rather than melting away.

Fed policy-makers, after much internal debate, nevertheless continue to resist calls for a looser monetary policy. Somewhat eccentrically, some regional presidents still harbour fears about a resurgence of inflation. They believe the interest rate cuts of the winter should be given more time to work their expansionary magic. A couple of sets of really bad employment figures, however, would probably be enough to shake their resolve.

The July downturn ended an expansion phase lasting 92 months, the second longest since records began in 1854. The Reagan boom's longevity was exceeded only by the flower-power expansion of the 1960s. That, one hates to remember, was followed by a particularly difficult decade. The main problem then was to control inflation; the challenge today is to reduce borrowing and rebuild savings. Presidents John Kennedy and Lyndon Johnson would have been appalled by the scale of the budget and trade deficits run up by Republican supply-siders of the 1980s.

Don't worry, the business cycle is not dead. This recession will bottom out, probably by late summer. But it is difficult to see how the US economy can avoid a prolonged period of sluggish growth, as debt-sodden consumers and companies struggle to regain their fiscal balance. No wonder the US Treasury is pleading for interest rate cuts in more responsible parts of the globe.

Reform in an area of frailty

JUSTINIAN

One in every 10 of the population of this country suffers from mental ill-health during the course of a single year, more than half being severely affected. The mentally-handicapped forms another identifiable, but much smaller, group of adults which needs special care and treatment. Old people – a growing number in an ageing population – deteriorate in their mental capacity and hence ability to manage their personal lives. In their various ways, all three groups display degrees of mental incapacity which increasingly call for public assistance in coping with their social handicaps, through legal and extra-legal procedures.

Tomorrow, the Law Commission is publishing probably its most significant consultation paper on Mentally Incapacitated Adults and Decision-making. It is a weighty document that is bound to provoke a lively and inevitably protracted debate. The issues are complex, both legally and socially, and touch on fundamental problems of human beings in society. So much so, indeed, that there is a worry that the legislator's pen could potentially inflict a bureaucratic edifice that accompanies any new law in a way that would depersonalise the human condition.

While there is at present a plethora of law governing the requirements of treatment – much of it dotted around the statute book – there is a paucity of rules which even touch on, let alone affect, other matters involving medical treatment for non-therapeutic purposes, such as sterilisation, abortion and cosmetic surgery.

The absence of declared law was starkly pointed out in a case which was tested all the way up to the House of Lords two years ago. It involved the sterilisation of a severely mentally-handicapped 35-year-old woman. The ultimate ruling of the law lords that such a surgical operation on a woman mentally incapable of giving her consent could lawfully be performed if it was necessary "in the best interests" of the patient was less than satisfactory. What constitutes the best interests of a patient was left undefined. Moreover, what the judges failed to do was to tell those responsible for the care and treatment of their patients about what the process should be in deciding whether the criteria for lawful intrusion of the individual's body were satisfied.

Reformers – and reform appears to be needed in this area of human frailty – point to three basic principles that should govern any prospective legislation. First, the autonomy of the individual must be paramount. People should be enabled, so far as possible, and encouraged to take decisions for themselves. This principle has its main impact on the vexed legal and philosophical question of a person's consent to treatment. Does the patient's agreement to take a specific treatment merely reflect his or her ability or capacity to understand what is being proposed? Or does it involve a real understanding of the nature, purpose and likely effects of the treatment, based upon relevant information supplied to the patient by those proposing to administer the treatment? There are many who would go further by supporting the concept of informed and real consent; they assert that true adherence to autonomy demands that the issue be viewed as a question of a patient's capacity to refuse treatment. If consent or agreement to treatment is the right approach, there is a further point that the process of obtaining that consent should be not episodic, but continual. Consent should never be a snapshot decision.

The second principle is that intervention should always be on grounds of necessity and involve the least restrictive form of intrusive treatment. Third, any decision-making for those mentally incapacitated must contain proper safeguards against exploitation by practitioners or the patient's family and relatives. Appropriate safeguards would primarily focus on the need to ensure that the mentally-incapacitated person was present and legally represented in the decision-making process. Vigorous testing of the medical diagnosis and prescribed treatment would have to be an essential feature of any procedural safeguards.

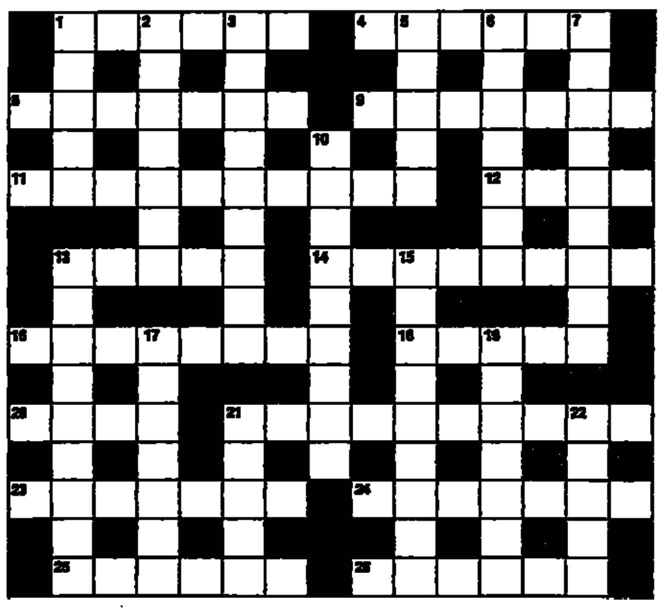
The one area of the law which caters tolerably well for mentally-disordered or disabled people is in relation to property and finance as distinct from personal care and treatment. The decision last week of Mr Justice Hoffmann, distributing the £1.6m estate of a 75-year-old mental patient adjudged incapable of making a will, demonstrated the scope of legal powers to administer the property affairs of the mentally-incapacitated. The Court of Protection exists to safeguard the interests of anyone who is found on medical evidence to be "incapable by reason of mental disorder of managing and administering his property and affairs". The court has been criticised from time to time for its inaccessibility to all but the well-to-do, and even then is regarded as paternalistic in its procedures. At present, it handles 22,000 cases throughout the country by a small staff based in London.

The extensive social impact in the framing or shaping of legal rules for handling the affairs of the mentally- incapacitated is such that the Law Commission has approached its mammoth task both tentatively and with sensitivity, aware that, as present constituted, it lacks the requisite expertise outside the law. Its embarking upon a study of such a distinct socio-legal topic will raise once more the exclusive lawyerly composition of the commission. Its consultation paper is peppered with proposals for multi-disciplinary bodies to make decisions on behalf of mentally-incapacitated adults. A multi-disciplinary approach by a body like the Law Commission, dealing with many, if not most, issues of law in modern society would seem likewise to be needed.

JOTTER PAD

CROSSWORD

No.7,530 Set by DANTE



ACROSS

1 Girl holds the right tool (6)
4 Catch ten out with a quick blow (6)
8 Mother checks out but doesn't leave (7)
9 They are said to get aid from above (7)
11 Identical, nevertheless (3,3,4)
12 Left in charge (4)
13 Took a chance and got the chop (5)
14 Unimportant persons make solving of murders difficult (8)
16 A support in cooking or riding, perhaps (8)
18 A relative term for one taking the pledge (5)
20 Puts on a show with unsuitable cast (4)
21 Military assistant has crazy idea to abscond (4-2-4)
23 Unusual seaside shingles for instance (7)
24 Rosters made out for holidays, perhaps (7)
25 Mace bearer? (6)
26 Get up for wild dances (6)

DOWN

1 A revolutionary invention (5)
2 It's lace made for use in many undergarments (7)
3 One who tries to steer a boat (9)
5 Deal with someone with a complaint (5)
6 He's right to take Monday off (7)
7 Stand by ascetic (9)
10 Hostile fire one can and does get involved in (9)
13 Management course (9)
15 Suffering from fewer restrictions, as far as one can see? (9)
17 Locked up as a final course (7)
19 Ride round on a whirlwind (7)
21 Possibly lies under a part of the church (5)
22 Won a hand and won the game (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday May 11.

EUROPEAN SMALLER COMPANIES FUND
8 Avenue Marie-Thérèse / L-2132 Luxembourg
R.C. Luxembourg B 20093
DIVIDEND NOTICE

By resolution of the Annual General Meeting held on April 23, 1991, a dividend of ECU 0.13 per share class "A" and per share class "B" is declared payable on or after April 30, 1991, to registered shareholders on record on April 23, 191, and to holders of bearer shares upon presentation of coupon Nr. 5. The shares are quoted ex-dividend as from April 25, 1991.
Paying Agent: Crédit Commercial de France (Luxembourg) S.A.
8 Avenue Marie-Thérèse/L-2132 Luxembourg
By order of the Board of Directors

BASE LENDING RATES

	%		%		%
ABN Bank	12	Comm. Bk. of London Plc	12	McDonnell Douglas Bnk.	12
Adam & Company	12	Co-operative Bank	12	Midland Bank	12
Allied Trust Bank	12	Coutts & Co	12	Mount Banking	12
AIB Bank	12	Cyprus Popular Bk	12	Nat Bk. of Kuwait	13½
● Henry Ansbacher	12	Dunbar Bank PLC	12	NatWestminster	12
B & C Merchant Bank	12	Duncan Lawrie	12	Northern Bank Ltd	12
Bank of Baroda	12	Equatorial Bank plc	12½	Nykredit Mortgage Bank	12½
Banco Bilbao Vizcaya	12	Exeter Bank Limited	12½	Provincial Bank PLC	14
Bank Credit & Comm	12	Financial & Gen. Bank	12	Roxburghe Bank Ltd.	13½
Bank of Cyprus	12	First National Bank Plc.	15	Royal Bk of Scotland	12
Bank of Ireland	12	● Robert Fleming & Co.	12	● Smith & Williamson Secs.	12
Bank of India	12	Robert Fraser & Ptnrs.	12½	Standard Chartered	12
Bank of Scotland	12	Girobank	12	TSB	12
Banque Belge Ltd	12	● Guinness Mahon	12	Unibank plc	12
Barclays Bank	12	● Hambros Bank	12	● United Bk of Kuwait	12
Benchmark Bank	12	Hampshire Trust Plc	13½	United Mizrahi Bank	12½
Brit Bk of Mid East	12	Heritable & Gen Inv Bnk.	12	Unity Trust Bank Plc	12
● Brown Shipley	12	● Hill Samuel	12	Western Trust	12
CL Bank Nederland	12	C. Hoare & Co.	12	Westpac Bank Corp.	12
● Charterhouse Bank	12	Hongkong & Shanghai	12	Whiteaway Laidlaw	12
Citibank NA	12	● Leopold Joseph & Sons	12	Yorkshire Bank	12
City Merchants Bank	12	Lloyds Bank	12		
Clydesdale Bank	12	Meghraj Bank Ltd	12		

● Members of British Merchant Banking & Securities Houses Association.

FINANCIAL TIMES SURVEY

FOREIGN EXCHANGE

SECTION III

Monday April 29 1991

The dollar's sharp rise since February and the weakness of the D-Mark have shown once again how the foreign exchange market is good for surprises. But the market is experiencing changes which could mean that its boom years are over, writes **Peter Norman**

Adjusting to a new climate

LIKE much of the financial world, the foreign exchange markets are going through a difficult adjustment to the far more sober business climate of the 1990s after the excesses of the opulent eighties.

Overall profits are thought to have fallen in the sector last year, exposing excess capacity and forcing some smaller operators to quit the market.

Even the dollar pyrotechnics of this year's first quarter have given the market little solace. The dollar's sharp fall against the D-Mark to new all time lows of around DM1.443 in mid-February and its subsequent 18 per cent rise in the seven weeks before Easter caught the market unprepared and so ill-placed to convert the turnaround into profit.

The dollar's sudden surge was instructive, however. It largely reflected a one-off shift in investor sentiment in favour of the US after the Gulf war. Coming after a lengthy period in which the impact of interest rates on interbank trading had been the dominant influence on exchange rate movements, the dollar's remarkable rise was a timely reminder to foreign exchange traders that they ignore underlying investor sentiment, the purchasing power of currencies and economic and geo-political fundamentals at their peril.

"It was a classic case of the interbank market and genuine financial flows finding themselves at loggerheads", comments Mr Paul Chertkow, chief currency strategist with Citibank in London.

The dollar surge began only days after the official discount rates in Germany and the US "crossed over". On January 31, the Bundesbank raised its discount rate by one half percentage point to 6.5 per cent and its more important lombard emergency funding rate by the same amount to 9 per cent. The following day, the US Federal Reserve cut its discount rate to 6 per cent from 6.5 per cent.

On past experience, those rate changes would have pointed to continued dollar weakness. But such considerations took no account of the animal spirits aroused by US-led victory in the Gulf and a growing perception among long term investors, such as pension funds, that the US had become a land of cheap buying opportunities after a protracted dollar fall.

These factors combined with a growing understanding of Germany's difficulties absorbing eastern Germany to release a flow of foreign portfolio capital in the direction of the US.

That mood swing showed that the foreign exchange markets are always good for surprises. Not only interbank traders were caught out. The chartists, who try to assess future exchange rate trends on the strength of currency movements, were also wrong footed.

But on the whole, the past two years have been remarkable for the relative stability of currencies in the face of striking geo-political change.

In the early 1970s, the western world entered a protracted economic crisis with the unleashing of inflationary pressures world-wide, the first oil crisis and the collapse of the Bretton Woods system of fixed exchange rates. The result was a bonanza for foreign exchange traders as countries pursued "beggar thy neighbour" economic and trade policies and currencies entered a decade and a half of wild fluctuation.

Nearly 20 years later, the collapse of communism in eastern Europe, the mounting economic and political problems of the Soviet Union, the end of the 1980s boom in the industrial world and the outbreak of war in the Gulf might have been expected to create similar shock waves in the West's currency markets.

This was not the case. By the time the iron curtain fell, the West had got its act together. All industrialised countries today pursue broadly similar economic policies that give priority to the combatting of inflation and encouragement of private enterprise rather than the pursuit of economic growth and full employment as ends in themselves. These lessons are now being adopted by the newly emergent democracies of eastern Europe and in much of the developing world.

In the European Community, economic convergence has contributed to remarkable stability in the exchange rate mechanism of the European Monetary System since the last significant parity realignment more than four years ago. Sterling, having joined the system's wider 6 per cent fluctuation band last October, has rarely moved beyond 2.25 per cent either side of its DM2.95 central rate.

Economic policy co-ordination, as practised by the US, Japan, Germany, France, Italy, Britain and Canada in the Group of Seven, has emerged as a key factor influencing the foreign exchange markets. Since September 1985, the big industrialised countries have attempted to influence exchange rate movements through co-ordinated currency intervention, backed by frequent private discussions among G7 finance ministers and central bankers on economic policy issues.

There is little doubt that the central banks have become progressively more adept in their efforts to influence currency movements. The G7 attempt to stabilise currencies through the so-called Louvre Accord of February 1987 involved massive intervention and the acceptance of distortions in financial markets that may have helped trigger the global stock market crash later that year.

Since then the G7 have learned to be more pragmatic, seeking to curb wild currency fluctuations rather than defend target zones for currencies. As a result, relatively small scale intervention by the central banks managed first to brake the dollar's fall in February and then to induce a pause in its rise around Easter.

G7 intervention is most effective when it reflects the clear political will of all members to steer currencies. Such determination has been less apparent as the dollar has risen.

But changes in the international banking industry have meant that the markets have punished the G7 less harshly than in the past for signs of disarray. Banks have become more risk averse in all their activities, including foreign exchange, reflecting their need to maintain strict capital adequacy standards. This safety-first trend has been enhanced by losses in the wake of falling stock market values in Japan and recession in the Anglo-Saxon countries.

Attitudes and conditions have changed rapidly. The foreign exchange business was hugely profitable between the Plaza Agreement of September 1985, when the US, Japan, Germany, Britain and France agreed on joint action to depress the then overvalued dollar, and the 1987 Louvre Accord to stabilise currencies. "There was a one way bet on the dollar and people built up their foreign exchange operations because it was easy money," says Mr Michael Burton, heaf of corporate sales in the treasury department of the Hongkong Bank in London.

In their gloomier moments, many market participants now wonder whether the foreign exchanges will ever recapture the speculative fervour and sparkling profits of the 1970s and early 1980s.

Traders and economists now talk of a market which seems to have its boom years behind it and where activity is becoming increasingly concentrated among a few large banks.

On the plus side, the liberalisation of eastern Europe may mean that currencies such as the Polish zloty, Hungarian forint and Romanian lei will be fully convertible and actively traded in centres such as London, Frankfurt, Tokyo, New York and Singapore in a few years' time.

But the drive for economic and monetary union in Europe could mean the disappearance of west European currencies if and when the European Community adopts a single currency and central bank.

Add to this the incipient tendency for other parts of the world to move in the direction of regional economic groupings such as the free trade area being negotiated between the US, Canada and Mexico, and it is easy to see why banks active in foreign exchange are increasingly seeking the stability provided by a solid customer base.

Growth of overall business has slowed, writes **Peter Norman**

Trends point to increased concentration of capacity

FOREIGN exchange traders are supposed to thrive on volatility and crisis. But the gyrations of the dollar, D-Mark and pound so far this year have done little to dim the impression that the foreign exchange market is undergoing considerable structural change.

According to Swiss Bank Corporation, last year was probably the most difficult year for foreign exchange market operators in 10 years. Over the past two years or so, there has been a steady trickle of smaller banks and foreign branches of banks leaving the market.

Traders and analysts report that the growth of overall business has slowed. When the industrial world's leading central banks next carry out a survey of foreign exchange activity it is unlikely to confirm the trend reported by the Bank for International Settlements in February last year.

The BIS survey, which is still the most up-to-date overview of global foreign exchange activity, indicated that global turnover in the market more than doubled to a staggering \$650bn a day in the three years to April 1989.

It is likely that the market is still growing. But at the same time, the big participants such as Citibank of the US, Barclays Bank of Britain, France's Crédit Lyonnais and the large German and Swiss banks are increasing their business at a faster rate than the market, lifting their market share.

This gradual shift of power to the big battalions is largely a reflection of two interwoven trends.

- Since 1987, there has been a decline in overall exchange rate volatility, which has limited business volume and trading opportunities.
- More recently, banks have become far more cautious and loss averse.

In marked contrast with the 1970s and early 1980s, the major industrialised countries now care about their exchange rates. Although domestic economic policies differ, all countries share a determination to defeat inflation.

Moreover, the Group of Seven leading industrial countries and an increasing number of smaller developed nations are prepared to intervene in the market to influence exchange rates. Although intervention is not always successful in the face of fundamental currency movements, it is a factor that markets cannot afford to ignore. The rapid switch of official attitudes towards the dollar earlier this year highlights this constraint on foreign exchange market activity.

In mid-February, the G7 was intervening to support the dollar as it fell to new all time lows against the D-Mark. Four weeks later, the Bundesbank, the US Federal Reserve and a host of smaller central banks were acting to restrain the dollar's rise.

Such factors have taken much of the fizz out of a market that once seemed to exemplify speculative excess. According to Mr Nick Douch, senior manager for corporate services at Barclays Bank's global treasury department in London, "the aim for most participants these days is to maximise the number of days in which they can make a profit" rather than aim for outright speculative gains.

Alongside external constraints are pressures for caution inside banks that largely reflect the spread of the "Basle mentality" in international banking. Since July 1988, when the central bankers of the world's leading industrial countries agreed on minimum capital adequacy ratios for international banks, awareness of credit and counterparty risk has grown.

Recession in the English-speaking world, with its trail of bad debts and the downgrading of banks by rating agencies, has greatly increased the premium placed on prudence in international banking. The effect on the foreign exchange market has been a reduction in the number of banks that are attractive business partners, making liquidity tighter.

These conditions have already deterred some banks from acting as market makers and made life harder for the big banks still quoting rates in a wide variety of currencies.

A market maker must be prepared deal both with an increasing number of counterparties seeking prices and cope with large blocks of currency that are suddenly put up for sale. One result of the declining liquidity in the market has been a sharp increase in day-to-day exchange rate volatility, which poses a far more difficult management task than medium term volatility.

Bankers cite how Bank Negara, the Malaysian central bank, has reportedly switched as much as \$2bn at a time from one currency to another in the course of aggressive management of its foreign currency reserves. A handful of US fund managers and Japanese corporations are also major movers of the market. In these circumstances, the shrinkage in the number of market making banks has created problems for some when they need to get out of positions.

However, there is a positive side to the concentration of market making capacity in fewer hands.

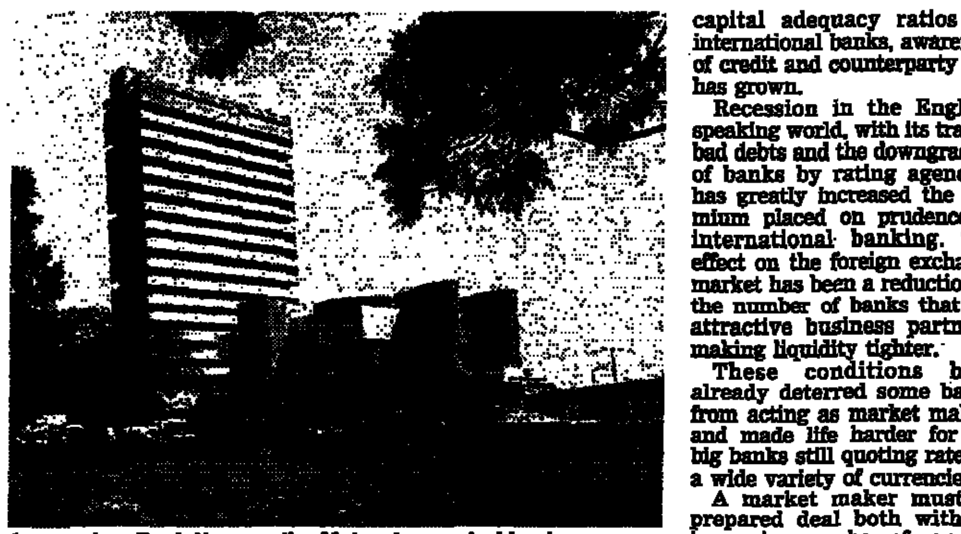
The big operators have superior information. "Unless you are a big bank, you have no idea what is happening to currencies," one trader observed recently. Mr Chris Deuters, Citibank's head of foreign exchange and derivatives in Europe agrees: "If you don't have access to the end user, your view of the market will be severely limited", he says.

The vital importance of information in a market where trading decisions are taken in a split second cannot be overemphasised. It helps explain why today's large foreign exchange players are more than just interbank trading operations, which thrived in the volatile trading conditions of the 1970s and early 1980s.

Those banks with an extensive customer franchise were in a far better position to handle the dollar's sharp rise in the six weeks following the Gulf war because they had an early insight into activity of the international institutions that moved long-term portfolio capital into the US at the time.

According to Barclay's Mr Nick Douch, looking after the customer is now a "number one priority" for foreign exchange departments. There has been an "enormous shift of emphasis" towards customer based business in the last 2 to 2½ years, he says.

At Citibank's London offices, Mr Julian Simmonds, the head of foreign exchange sales and trading agrees. "Any bank can have a marvellously successful year, but very few have growing but stable profits. For that you need the customer franchise", he says.



Aggressive: Bank Negara, the Malaysian central bank, has reportedly switched as much as \$2bn at a time from one currency to another

Foreign Exchange market, net average daily turnover (\$bn)

	Mar 1986	April 1989
UK	90.0	187.0
US	58.5	128.9
Japan	48.0	115.0
Canada	9.5	15.0

Source: Bank for International Settlements 1990

Annual ranges for the US \$ against the D-Mark, in pfennigs

1985	100
1986	55
1987	35
1988	34
1989	34
1990	25
1991*	27

*first quarter

Source: Swiss Bank Corp, London

Simon London looks at the Ecu

Unique status in the market

THE European currency unit occupies a unique position in the foreign exchange market, having neither legal tender status nor any certainty over its future composition – let alone its future value. Yet nearly every major bank has traders buying and selling the currency. The last official volume figures relate to April 1989, when the Bank of England recorded an average daily turnover of \$4bn equivalent.

Volume of trading has now grown well beyond this level but remains below that of the major currencies – perhaps one-tenth the volume of dollar or yen trading, according to those active in the market.

Ecu bonds have become a favourite tool for borrowers and investors. Last year, the value of Ecu bonds issued reached Ecu14bn (\$17.5bn), making the Ecu the fourth most popular currency after the dollar, sterling and yen.

This year the growth of Ecu bond issuance has been still more spectacular. In the first quarter alone \$17bn equivalent of new paper was issued, boosted by large benchmark issues from sovereign borrowers, notably the UK, Belgian and Italian governments.

Investors wanting to buy these bonds have to buy Ecus on the foreign exchange market, often in exchange for non-Ecu currencies such as dollars or yen. Equally, Ecus received as coupon payments are often sold in the market.

The basket nature of the Ecu might be expected to moderate its volatility against currencies outside the European monetary system. To an extent, the Ecu is indeed more stable than the underlying national currencies. However, the D-Mark alone accounts for around 30 per cent of the Ecu basket. Currencies informally linked to within 0.5 per cent of the D-Mark (the Dutch guilder and the Belgian and Luxembourg francs) bring the total "D-Mark bloc" weighting up to 47 per cent of the Ecu basket.

For example, the D-Mark's rapid depreciation against the dollar during February and March was mirrored in the Ecu. From Ecu0.70 in mid-February, the dollar was valued at Ecu0.83 by the end of March.

Users of the Ecu also monitor its market value against a theoretical value. Until recently the Ecu rarely drifted far from this theoretical value, calculated by taking proportionate amounts of each of the European currencies which make up the Ecu basket.

This was because many banks employed arbitrage traders ready to exploit brief differences which open up between the theoretical value of the Ecu and its quoted value on the foreign exchange markets.

However, the arbitrage trading relies on the assumption that the actual and theoretical values of the Ecu will eventually converge. This is no longer something that many firms are willing to take for granted.

Many believe that the Ecu basket will soon be reweighted, changing the Ecu's composition and value. The Ecu's market valuation therefore reflects both the current theoretical value and a range of possible future theoretical values.

Recent expectations of a realignment within the Ecu currencies have tended to push the Ecu's market value higher than its theoretical value – as much as 1 per cent higher.

This is a state of affairs which may shape the future development of the Ecu. For example, some proposals for the future structure of the single European currency have centred on a regular annual reweighting of the currencies within the Ecu basket. On recent evidence this would leave the foreign exchange market embroiled in a constant guessing game with the proposed European central bank.

However, the popularity of the currency is clear from the performance of Ecu-denominated financial instruments.

Just as the Ecu itself is overvalued against theoretical models, so Ecu bonds are far more expensive than theoretical calculations suggest they should be. For example, 10-year maturity large liquid Ecu bond issues are currently yielding around 60 basis points less than the theoretical Ecu yield curve – calculated from the national bond markets which make up the Ecu basket.

Analysts explain the phenomena in terms of the political momentum towards economic and monetary union. For the first time, it is argued, investors seriously believe that the Ecu will become a single European currency.

However, the value of the Ecu, at least as expressed through the international bond market, remains volatile. Ecu bond yields tend to rise sharply when the political or economic outlook is clouded. For example, the extent of economic dislocation in eastern Germany has push Ecu bond prices down from the peak of the market in early February.

Volatility may be lessened with the advent of Ecu bond futures contracts, which give investors the chance to hedge their positions.

The London International Financial Futures Exchange launched its contract earlier this year. The Paris future exchange, the Matif, has had a contract trading since October last year.

The thriving bond market and the growing foreign exchange market in Ecu have led to the development of an interbank netting and settlement network – another example of a developing financial infrastructure.

The clearing system was set up in 1986 and now has 45 participating banks. Interbank payments are first netted through the SWIFT system and then cleared through a special unit of the Bank for International Settlements in Basle.

Peter Marsh assesses Europe's exchange rate mechanism

Qualified success of ERM

AMONG the more successful European innovations of the last 15 years is the exchange rate mechanism, set up in 1979 as a way of regulating the main west European currencies. Keeping the currencies within agreed limits against each other, it was argued, would encourage monetary stability, so reducing inflationary pressures. The mechanism would also aid commerce and industry by minimising exchange rate fluctuations.

Twelve years on, the general consensus is that the system has achieved most of its aims. "The ERM has been remarkably successful", says Mr Jim O'Neill, head of financial markets research at Swiss Bank Corporation in London.

In the case of the pound, which joined the system only last October, that statement needs to be qualified. Economists are divided over the extent to which the external discipline of the ERM will improve UK economic performance – particularly in inflation, where Britain's record over the past 20 years has been far from satisfactory.

All but two of the 12 European Community member states (the exceptions are Greece and Portugal) participate in the mechanism. That means the ERM embraces nine currencies – the D-Mark, the French franc, the peseta, the guilder, the Belgian/Luxembourg franc, the Danish krone, the punt and the pound.

The pound, the last currency to join the system, and the peseta are allowed to fluctuate against the others by up to 6 per cent about an agreed central rate: for the other currencies, the permitted margin is 2.25 per cent.

In the early days of the system, realignments tocentral ERM rates were relatively frequent. Over recent years, however, the system has been more stable; the last full-scale realignment was in 1987.

Co-ordination is left largely to officials at individual nations' central banks. These people talk to each other roughly three times a day.

Their discussions will cover day-to-day issues such as the need for small changes in interest rates. Another topic is the degree to which countries may need to intervene in financial markets to influence the value of specific currencies by buying or selling.

The ERM countries have in general become adept in co-ordinating strategies over interest rates and other aspects of monetary policy to keep their currencies within the limits allowed by the system

Such operations are put in the hands of specialist foreign exchange departments of each central bank. Given the size of the world foreign exchange market, there is no way that the outside world can find out about specific dealings in currencies by the banks – unless these bodies broadcast their intentions with a view to influencing the market.

Highly public currency interventions by the ERM nations' central banks have been a feature of the first few months of this year, as the individual countries have sought to influence the value of the dollar.

More far-reaching decisions about the workings of the ERM, such as significant realignments, are left to meetings of EC finance ministers and central bank governors.

One of the chief virtues of the ERM, according to itsadmirers, concerns the way individual currencies within the mechanism are pegged to the low-inflation characteristics of the D-Mark, the mechanism's most powerful member.

That forces the other ERM nations to adopt strict monetary policies that should lead them to levels of price stability similar to Germany's. The ERM medicine has certainly worked over the past decade for the Netherlands, Belgium and France, which today can boast inflation records not far removed from Germany's.

UK government ministers, meanwhile, are hoping the same will happen over the next few years for Britain, although public opinion has yet to be won overto the the ERM.

A group of monetarist economists, led by Sir Alan Walters, the former economic adviser to Mrs Margaret Thatcher, is waging guerrilla war against Britain's membership of ERM.

The group wrote to *The Times* in February saying that Britain's membership of the ERM meant it had to institute inappropriately high interest rates which could push the country into deep recession.

For all the general interest by the ERM nations in wanting the D-Mark to stay strong so as to reinforce the disciplinary impact of the system, some signs have emerged in recent weeks of a certain satisfaction in the rest of Europe about the weakness in the D-Mark.

The D-Mark has lost ground dramatically, mainly against the dollar but also against a number of European currencies, as fears gripped markets about the possibly negative consequences for the global economy of German unity.

The D-Mark's fall from grace may lead to a slackening, at least for the time being, in the way the ERM reinforces anti-inflationary characteristics aspects among the other countries.

But the monetary authorities in France and Britain have had good cause to smile, on the grounds that the weakness in the currency has given them far more scope within the system to cut interest rates and so restore growth.

One problem for many of the ERM nations in recent months has concerned the Spanish peseta, the strongest currency in the grid. The attraction to international investors of the currency has correspondingly weakened demand for some of the other currencies, and has made life particularly difficult for the monetary authorities in France – whose franc is the weakest currency in the system.

Could the ERM act as a forerunner to a grand world system of linked exchange rates?

A world exchange rate system, connecting the main European currencies with the yen and the dollar, would follow from the increased co-operation on an economic and monetary level among the world's main industrial powers since the 1970s. It would also underline the degree to which the world economy is becoming increasingly integrated as a result of the way that large business operations plan their operations.

Differences remain over economic and monetary union, writes **Peter Marsh**

The search for common ground

BY THE end of this year, if all goes to plan, Europe should reach a broad consensus on how to proceed towards the final phase of economic and monetary union (Emu) around the end of the century.

But to reach this common view, officials from the 12 European Community countries will have to close some large gaps in thinking on what the union should eventually look like and the pace at which it is to be achieved.

In the third and final stage of Emu, according to the plans of much of Europe, responsibility for pan-European monetary policy is due to be handled by a single European central bank which would be independent of governments. It would also administer a new, single currency.

In this form, Emu would fit in with the increased integration over the past 20 years of European commerce and industry. Advocates say it would follow on logically from the idea of making Europe a single market place – the goal of the EC's 1992 programme to eliminate trade barriers.

But beyond the rhetoric, a number of problems remain. The forum in which these will be discussed is the EC's intergovernmental conference on Emu, which started in Rome in December last year and which will continue throughout 1991 in the shape of meetings roughly every two weeks between EC officials. The main disagreements concern:

- The detailed timetable for Emu. All 12 EC countries, except Britain, accept the idea of a European central bank linked to existing national central banks – which would also be politically independent and operate as branch offices of the main central bank.

Some countries, led by France, want the new bank to be set up in the so-called stage two of Emu, starting in 1994, though Germany favours waiting until 1997. That would allow time for the economies of individual countries to come closer together to the point when an all-embracing monetary policy for the whole of Europe made sense. France fears, however, that much of the momentum towards Emu could be lost if plans for a central bank are delayed.

- The idea of a two-speed Europe. An argument which has gained much ground over the past year is that those countries whose economic performances, especially in the area of inflation, are reasonably similar could go ahead almost immediately with a form of Emu, leaving other nations on the periphery.

This point of view, expressed most forcibly by Mr Karl Otto Pöhl, president of the German Bundesbank, would put Germany, France, the Benelux countries and, possibly, Denmark in the "inner core". Britain, Spain, Greece, Portugal, Eire and Italy would be on the outside.

Though many argue that this arrangement makes a great deal of sense, it has been attacked on political grounds by the nations which under such a system would see themselves as "second class citizens", excluded from the benefits of inner-core Emu membership.

- The role of the Ecu. As an alternative to the notion of setting up a European central bank in stage two, Britain has proposed a European Monetary Fund (EMF), whose main task would be to administer a new, common European currency, the hard Ecu. This would differ from the existing basket Ecu, based on the main European currencies.

The UK's EMF/hard Ecu plan would provide Europe with experience of using a common currency, in parallel with existing currencies, prior to any decision about moving to a single financial unit. Britain has indicated that the EMF could ultimately evolve into the European central bank envisaged by the other EC nations.

Although much of the rest of Europe has its doubts about the practicality of the hard Ecu, some countries, among them Spain, have appreciated the usefulness of the UK proposals in providing a focal point for debate about the speed with which Emu should come about. Germany, meanwhile, has come out strongly against the hard Ecu and the EMF, though it favours "hardening" the existing Ecu to encourage the currency's use, perhaps by freezing its composition.

- Fiscal policy. Some believe that the idea of a pan-European central bank to handle monetary policy needs to be accompanied by a centralised approach throughout Europe towards tax treatment and intergovernmental transfers.

One fear is that, without a set of arrangements for channelling large amounts of government cash from the richer parts of Europe to the poorer regions, the single monetary bloc could lead to a rapid division between Europe's "haves" and "have nots".

Mr David Hale, chief economist at Kemper Financial Services in Chicago, says: "I don't think that people in Europe have realised the extent of the the transfers which might be needed under Emu to avoid social disruption."

He adds that once Emu has taken place, parts of countries such as Greece and Spain with low incomes could gain from this kind of arrangement. It could be modelled on the system in Canada, under which the relatively poor province of Newfoundland receives large payments from central government funds.

Some see a cooling in enthusiasm for the concept of Emu, partly a result of the economic slowdown that has affected Britain, France and Italy in particular over the past year. There is also more of a mood of caution – sparked largely by the problems which have emerged this year in bringing together eastern and western Germany – about moving too quickly to an economic union for the continent as a whole.

However, Mr Wolfgang Reinicke, a political economist at the Brookings Institution in Washington, says that the pace of European integration at a business level will push the discussion about economic union and make this virtually unavoidable.

"Europe has almost reached the point of no return [in moving towards Emu]," he says. "But the way this is achieved may be less clear-cut than people initially thought."

Analysts feel the worst of the slump is over

Dollar sent on a rollercoaster ride

SAVED from falling too low by the world's central banks in February, only to be stopped from rising too high by the same central banks four weeks later, the dollar has been on a giddy rollercoaster ride over the past few months.

On February 11, the dollar hit a new all-time low against the D-Mark of DM1.44. Seven weeks later it was up at DM1.70, its highest level for eight months. It has hovered there ever since.

In that short burst – the strongest movement in the dollar since 1985 – foreign investors bought the dollar for a whole host of reasons.

Financial markets expect the US economy to pull out of recession by mid-year. In spite of rising unemployment and poor corporate profits, most analysts feel that the worst of the slump is over, that consumer confidence will rebound quickly after victory in the Gulf war, and that recovery is around the corner.

This helped persuade overseas investors that dollar assets were a good buy. Not only were they cheap, because of low US interest rates, but big gains in US equity prices attracted a lot of new foreign money into the country.

Concern about political and economic chaos in the Soviet Union and its former satellites, and the effect this has on European economic interests in the region also favoured the dollar.

In Germany, the tensions of reunification – apparent in open discord between government and Bundesbank, and in unrest among east Germans – turned international investors away from the D-Mark towards the dollar.

Interest rate differentials, which have worked against the dollar for almost a year, are beginning to swing the other way. The rapid cuts in US interest rates, engineered by a Federal Reserve anxious to bring the economy out of its dive as quickly as possible, appear to have run their course.

The spectre of inflation continues to hover over the US economy, and with the Fed divided over the wisdom of further rate cuts, analysts expect US borrowing costs to remain steady over the medium-term.

At the same time, the consensus among analysts is that as economic growth in Germany and Japan slows, interest rates in those two countries will come down, or at least go no higher. This would narrow the differential between rates on US and European/Japanese assets, making US assets and dollars more attractive. Inflation patterns should also work in the dollar's favour, with medium-term trends pointing to lower US and higher German and Japanese inflation. Real yield differentials, therefore, would also narrow.

Then there is the issue of purchasing power parity (PPP) and whether the dollar is a cheap currency.

There is a rare unanimity among currency analysts on the dollar's PPP. The theory of PPP is that the same basket of goods in two different countries should have the same relative value, whichever currency is used to price the basket. Based upon current valuations, the dollar looks cheap in terms of its PPP. Although estimates differ, most analysts believe the true value of the dollar is close to DM2 and Y200, the rate which would make a basket of goods in the US cost the same as in Germany and Japan. This means the dollar has room to appreciate another 20 per cent against the D-Mark, and nearly 50 per cent against the Yen, before it is correctly valued.

The positive scenario for the dollar is, of course, no guarantee that the currency will perform according to analysts' predictions.

The US economy could take far longer to come out of recession, with employment and personal income growth – two key determinants of economic growth – likely to remain weak. US interest rates, therefore, might have to come down several more times for both economic and political reasons (1992 is presidential election year) while inflation concerns take a back seat.

Interest rates abroad may also rise. Both Germany and Japan are sensitive to the inflationary threat and any sign of price pressures could lead to tighter monetary policy.

Disagreement among the Group of Seven nations over exchange rate policy could also damage the dollar. Although central bank intervention to aid the currency when it dropped to DM1.44 in February was relatively successful, subsequent attempts to stall its rise around the DM.165 level proved less effective.

Mr Joe Petri, managing director of government securities and foreign exchange at Merrill Lynch in New York, explains why: "The market was not so sure that the US authorities were as uncomfortable with the dollar's rise as the European central banks."

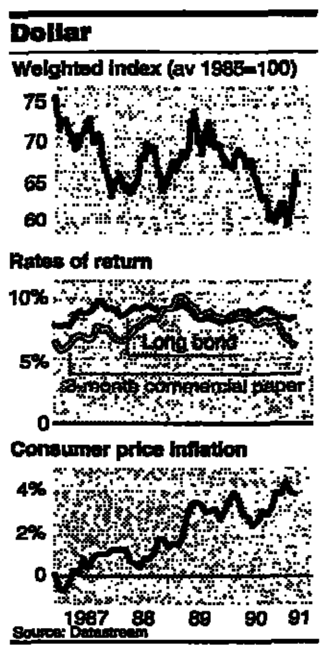
The insouciance of the US monetary authorities in late March when the dollar was roaring ahead made it clear that this was not an entirely unwelcome development. Although an appreciating dollar makes US goods less competitive abroad – and this matters to those who expect export growth to lead the economy out of recession – it also keeps a lid on inflation, by making imported goods cheaper.

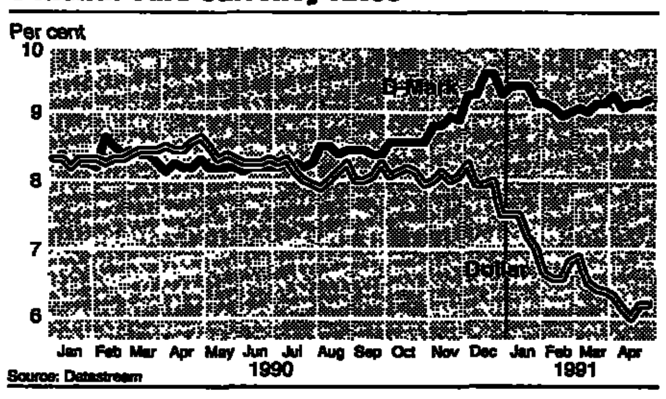
Similarly, the central banks of Europe and Japan can hardly have been overjoyed at the prospect of a stronger dollar, because of the negative inflationary implications for their own economies. Germany in particular is keen to prevent imported inflation from adding to an already worrying upward trend in domestic prices.

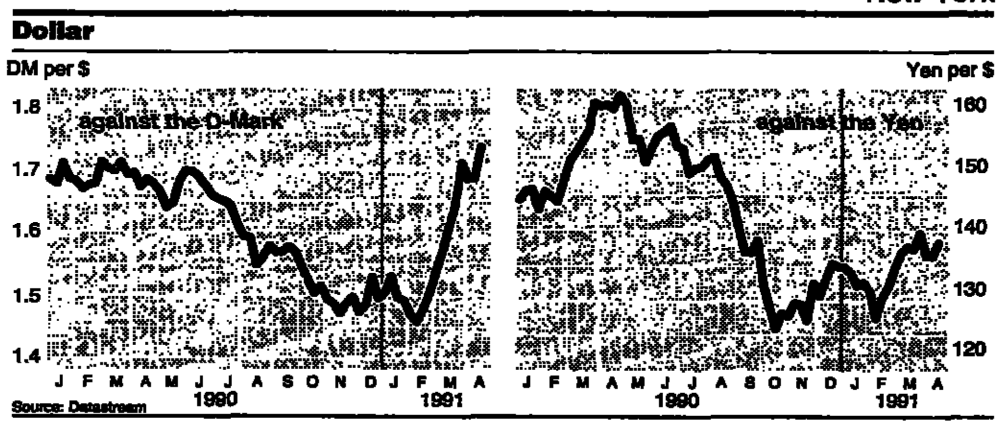
The stronger dollar does, however, allow room for lower European interest rates. Mr John Major, the UK prime minister, must have privately welcomed the opportunity the higher dollar gave him to cut credit costs in the UK without worrying too much about the consequences for domestic inflation and sterling.

There has been one politically embarrassing by-product of the recent rise in the dollar, the fuss over the $51bn pledged by friendly foreign powers to the US to help cover the cost of the Gulf war. Germany has already said it would pay more Deutschemarks than it originally promised to make up for the D-Mark's depreciation against the dollar. Japan, however, has so far refused to pay any more than the initial pledge of $9bn, to the fury of Americans everywhere.

Patrick Harverson,
New York







THE D-MARK

Hit by costs of unity

BUOYED throughout last year by the psychological and interest rate effects of German unification, the D-Mark has suddenly started to wobble.

It is now over a year ago that domestic bond yields climbed nearly 2 per cent (to the 9 per cent mark for ten-year paper), as investors, primarily those abroad, sold heavily in anticipation of the vast, but then quite unknown, cost of unification. The equity market suffered later in the year, as eastern euphoria melted into sober assessments of how distant the benefits and how immediate the costs would be.

During that time, the foreign exchange markets chose to ignore such concerns, both as regards east Germany and with respect to events further east, including in the Soviet Union – the latter typically having a strong, if primarily psychological, effect on the currency's fortunes.

Since February, when the dollar touched a low of just under DM1.45, there has been a rapid – some would say exaggerated – reversal in the relative assessment of the economic prospects of the US and Germany on the foreign exchanges.

While the end of the Gulf war toned up US consumer confidence markedly, other more concrete factors, including a pronounced narrowing of the trade deficit, have bolstered the dollar.

Meanwhile the D-Mark's softness – which must not, given most estimates of purchasing power parity between the two currencies at over DM2 to the dollar, be exaggerated – appears to be more than the mirror image of the dollar's current strength. The D-Mark has weakened considerably within the EMS since earlier in the year, when talk was of realignment strains because of its buoyancy. It has also slipped noticeably against the yen.

What has happened is delineated on one level in the political headlines, as the "unity chancellor", discredited by his reversal of policy on taxes, is now charged with having seriously underestimated the scope of the task of bringing east Germany to its feet.

Returning to the new Länder at the beginning of April for the first time since the federal elections in December, Mr Helmut Kohl was bombarded not with cheers but with eggs for his inability to bring last year's fulsome promises true. In spite of transfers of around DM100bn from west to east this year, sharply rising unemployment and falling living standards provoke social unrest, and the point at which the east German economy is expected to turn the corner, if anything, recedes.

For the Bundesbank, unification has represented a continual struggle to emerge with its prized political independence untarnished. At present it is not winning the battle as comfortably as it (or foreign D-Mark investors) would like. From the point at which the Bonn government imposed the terms of currency union with the east – in the highly generous conversion recently dubbed "a disaster" by Bundesbank president Mr Karl Otto Pöhl – the central bank has had to fight hard to preserve its formidable reputation.

Pöhl: battle to preserve Bundesbank independence

Most recently, the tussle between Frankfurt and Bonn over the composition of the post-unification Bundesbank – which must be resolved by October – has left markets wondering whether Mr Pöhl's keeness to win political acceptance of a slimmed down policy-making council, with considerably less power to the Länder, may not create indirect strains on current policy-making.

More obviously, the levers of monetary control are far more difficult to operate in the enlarged Germany. Inflation, still only 2.5 per cent in March, is set to increase, partly as a result of the hefty tax surcharge coming into effect from July. Moreover, the current wage round is proving more acrimonious than expected – not helped by the imminent tax increases – with average settlements likely to be in the 7 per cent range, representing almost a doubling of unit labour costs compared with last year. A weaker currency would also have an additional inflationary effect, although it is too early for the increased costs to have fed through in the monthly price numbers.

Another factor affecting the foreign exchange market's perception of the D-Mark is the speed with which the pan-German economy has slipped into current account deficit (in January and February) after years of west German surpluses dating back to the early 1980s. The demand surge prompted by unification has sucked in imports, while many of Germany's traditional exporters have found major overseas markets weak or recession-bound.

The current account surplus (DM104bn in 1989 and DM71bn last year for west Germany) may be in deficit in 1991 across the united country. While this reallocation of capital from abroad to the domestic market is precisely what is required to effect the task in hand, the spectre of a current account deficit tends to spook currency markets.

Finally, the record public sector borrowing requirement – officially DM150bn this year – is taken as a further symptom of the economy's changed nature. Even with the tax increases, some investors fear that official targets could be exceeded, and the Bonn government is besieged by criticism, from its central bank as well as elsewhere, over its inability to cut public expenditure in the west.

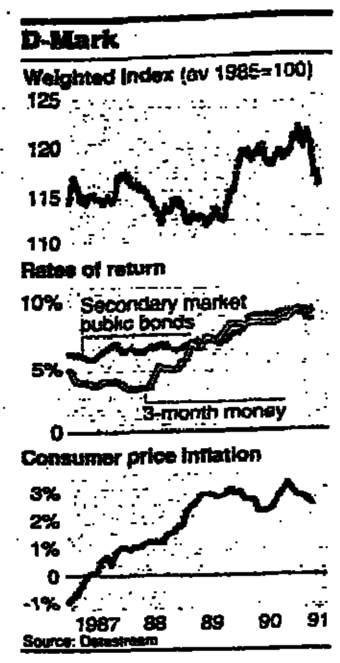
Economists suggest one reason why the Bundesbank, having nudged official rates up by half a percentage point at the beginning of this year, has so far resisted responding to the D-Mark's slippage by a further tightening. As the risk premium of holding D-Marks is seen to increase, the authorities can fall into the trap of initiating a defensive move that merely keeps the D-Mark constant – with a much heftier move being necessary to restore a previous rate. Unlike in February, where the industrialised nations were prepared to intervene in support of the dollar, there is no such consensus for the reverse action.

One by-product of Germany's domestic problems has been a reduction in the influence of the D-Mark within the EMS. At the turn of the year, the strength of the currency was causing tension within the system, and the rate rise at the beginning of February unleashed a storm of international protest at what was seen to be an unneighbourly move given the opposite trend to lower interest rates elsewhere.

In spite of that move, however, countries including Spain and Britain have been able to continue lowering their official rates as the D-mark has slipped for reasons other than those connected with pure interest rate differentials. If Germany sees that as undesirable, its neighbours on the whole do not.

In sum, the foreign exchange's preoccupation with the mounting burdens of unification – ignoring both the continued strong growth in the western part of the economy and the undiminished long-term prospects – are no more logical than last year's gravity defying optimism. The mood can swing as quickly again.

Katharine Campbell,
Frankfurt



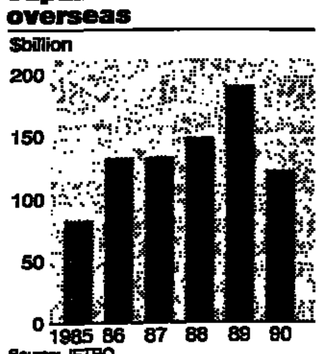
Seth Sulkin explains why the yen has yet to displace the dollar

Currency in search of a rôle

THE steady fall of the yen over the last three years seems to have come to an end, but in spite of generally favourable market conditions, there does not seem to be much hope for a rapid turnaround in the near future.

One of the biggest negative factors affecting the yen rate over recent years has been the outflow of Japanese capital, requiring Japanese investors to sell yen in order to obtain dollars and other currencies to make foreign investments.

But the situation changed in 1990 as total Japanese indirect, or securities, investment abroad plunged to $39.45bn, down from $113.67bn in 1989. More significantly, Japanese investors were huge net sellers of US securities – to the tune of more than $16bn in 1990 – and more modest net sellers in west Germany and Australia. The only country where Japan made substantial net purchases was Luxembourg, and these were thought to be mostly Euro-yen paper.



Excluding the Luxembourg investments, Japanese foreign securities investment only totalled about $7bn in 1990 – little more than one-tenth of the 1989 figure. This was offset by a slight increase in Japanese direct foreign investment to about $48bn in 1990, up from $44 bn in 1989, but quarterly statistics show a steady decline throughout last year.

This change in the amount and nature of Japanese investment has led Nomura Research Institute economist Mr Richard Koo to say "the worst reason for yen weakness is gone".

Given the absence of heavy yen-selling pressure and the continued growth of the Japanese economy, "the biggest mystery is why the yen is still weak", Mr Koo says.

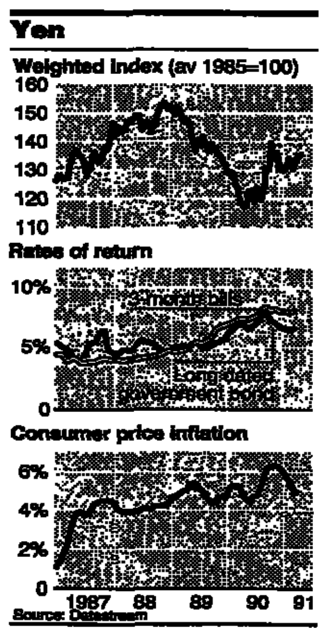
With most Japanese foreign securities investment made in yen and a substantial portion of the funds in other currencies raised outside Japan, it is surprising that the yen has not benefitted in foreign exchange markets, he says.

At a current rate of Y135 to the dollar, the yen is in the middle of its three-year range. According to the Bank of Tokyo, the yen-dollar average was Y128.13 in 1988, Y127.98 in 1989 and Y144.81 in 1990.

The yen was fairly stable for most of 1990 until Iraq's invasion of Kuwait, when surprisingly, it strengthened against the dollar. Since the end of hostilities, the dollar has risen, which market players attribute to the quick and decisive conclusion to the US-led war. The power shown by the US and the perceived indecisiveness of Japan and Germany, which have the two most significant currencies after the dollar, highlighted prospects for economic recovery in the US and increased confidence in the dollar.

However, some economists say US recovery is by no means certain and the Japanese economy generally looks much healthier. Further signs of a US recession and steady Japanese growth could lift the yen somewhat, but few look for a big move. The yen's range of Y135 to Y140 in recent weeks represents an equilibrium level, many say.

While a combination of factors may have benefitted the Japanese authorities' interests in halting the slide in the yen, Tokyo's desires to increase its currency's international rôle have not made much progress.



Although the ministry of finance and Bank of Japan continue to liberalise financial markets and the dollar's international rôle remains on the decline, there has been little interest around the world in picking the yen as a replacement. Japan's yen-dominated exports rose in 1990, but coming after a decline in 1989, the trend has been mixed.

Bank of Tokyo director Mr Keikichi Honda says the minimal international interest in the yen stems from the lack of a visible, consistent policy by the Japanese government to promote the yen. Yen holdings are not attractive to international investors and official authorities because of the lack of a liquid short-term money market in Japan, he says.

"The absence of a yen TB (treasury bill) market is a real impediment", Mr Honda says. "TBs are like air and water; without a base, arbitrage transactions are not as liquid as desired."

While the US Treasury has a deliberate policy of fostering liquidity in its debt markets, Japan's authorities are hesitant to issue government securities without a specific funding need. The finance ministry finally relented last year and issued treasury bills for liquidity purposes, but Mr Honda says conflicts of interest throughout the bureaucracy prohibits an overall consensus on the importance of promoting a short-term yen money market. While the US Treasury has weekly bill auctions, Japan's finance ministry still prefers to issue what it calls financing bills only when the need arises.

A committee of government and private-sector experts attached to the official Economic Planning Agency has been studying liberalisation and internationalisation of finance, but the EPA is thought to lack the influence needed to settle disputes between the Bank of Japan and the finance ministry. Conflicts of interest among various finance ministry bureaux, such as international finance budget, finance and tax, have also made it more difficult to develop a larger money market in Japan.

The unattractiveness of the yen as an instrument of international trade is shown by the almost negligible amount of yen-dominated trade by third parties. The yen's share of world trade inched up to 4.3 per cent in 1989, from 4.2 per cent in 1988, according to the Bank of Tokyo.

Over the next few months, the yen may be buffeted by domestic developments in Japan. Prime minister Mr Toshiki Kaifu's term as president of ruling Liberal Democratic party ends in October, and the expected political manoeuvring could create uncertainty, although analysts see the impact of this as being short-lived.

Sterling has rarely seemed in danger of breaking its bands

Padlocked into the ERM, but given a long chain

STERLING'S years of living dangerously are over. Once the most volatile of internationally-traded currencies, the government finally padlocked it to the exchange rate mechanism of the European Monetary System in October last year. To allow for its propensity to respond to the tiniest of domestic and international changes, the government gave sterling a long chain.

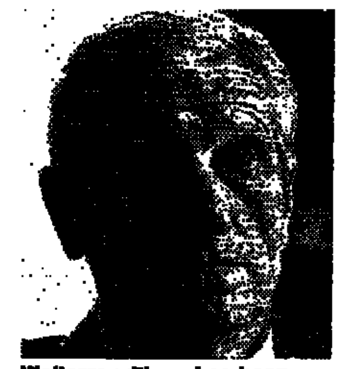
Apart from the peseta, it is the only currency in the system allowed to move 6 per cent up and down either side of a central rate. Sterling's central rate was set at DM2.95 against the German currency, and over the last eight months it has rarely seemed in serious danger of popping out of its bands.

That in itself sums up sterling's initial success in the ERM. It has been a performance which the monetary authorities have professed themselves generally "comfortable" with.

It has, up to now, been a far cry from the economic consequences of joining sketched out by Sir Alan Walters, once Mrs Thatcher's personal economic adviser. In his book *Sterling in Danger*, he makes the point that pegging the exchange rate would force Britain "slavishly to follow that of the major monetary power, whether the US or Germany". But what has become known as the "Walter's critique" has been largely discounted.

This was essentially that sterling, backed as it then was by 15 per cent base rates, would zoom to the top of the currency grid as the peseta did. Then the authorities would have to restrain it from appreciating beyond agreed limits with base rate cuts, thereby

Major: as chancellor, took UK into ERM



Walters: critique has been largely discounted

unleashing another demand boom and inflation.

Only last month has the pound's appreciation – it rose to second place in the ERM – prompted speculation of rate cuts to restrain its further rise, with reunification worries weakening the D-Mark. But central bank intervention seems more likely to result from an over-strong pound.

Such a satisfactory position was difficult to foresee back in October last year.

The monetary conditions at the time of 1990 entry were regarded as inappropriate – a fact which renders considerable the achievement of Mr John Major, then chancellor, to foist the move on a recalcitrant Mrs Thatcher.

Just before Mrs Thatcher was persuaded to agree in October, the *all-items* index of retail prices was rising at an annual rate of 10.6 per cent. Interest rates had been at 15 per cent for a year. The inflation conditions in particular invited widespread accusations that the ERM move was political engineering of the economy at the worst possible time.

The Bank said the Government's "dilemma" was that while monetary growth, output and real demand were falling, putting huge pressure on companies' trading margins, wage settlements and inflation were still rising.

opt cut

But Mr Major's gamble paid off. The Bank later acknowledged that joining would reinforce the Government's anti-inflationary strategy, as companies could no longer expect a lower exchange rate to validate their failure to contain costs.

As it has turned out, inflation was on the way down as Mr Major had maintained, and the UK heading for a recession as deep as the one in 1980-1981. With hindsight, the much-criticised base rate cut that accompanied the move was more than justified by the speed with which the UK went into recession.

Equally satisfying was the fact that the only limit sterling has come very close to touching has been the lower one, in December last year – the opposite of what Sir Alan argued would happen. The markets have provided both a floor and a cap for sterling, keeping it trading comfortably within its ERM bands. So comfortably, in fact, that rumours started circulating just before the March Budget that the government was going to tighten to the 2¼ per cent narrow bands.

Since entry, sterling has steadily appreciated – even edging close to the DM3 level – against a background of domestic recession. Unemployment is rising by about 70-80,000 a month, while the current account is averaging around £1bn a month as imports respond to weak domestic demand.

In reflection of falling economic activity, interest rates have been cut four times, by just half a percentage point each time. They are now at 12 per cent and are expected to fall further by June.

This has not undermined sterling, however: the D-Mark has been weakened by the perceived "disastrous" consequences of German reunification; the dollar is bouncing back from record lows – pulling sterling with it – as consumer confidence has resurged at the ending of the Gulf war and hopes that the recession will be as short and shallow as the Fed as predicted.

But although sterling is strong now, it faces hurdles ahead. The government would clearly like to reduce interest rates further, to stimulate the economy and win voters in the run-up to the general election. As Mr Norman Lamont said in his Budget Speech, "interest rates remain the essential instrument of monetary policy, but now the overriding factor in setting them is the need to meet the UK's ERM obligations". This means the Bank cannot cut interest rates unless the move is fully discounted in the markets.

What does the medium term then hold? A general election, for a start. If the election is in June, the pound will hold an election risk – though a Tory win should leave it higher than a Labour win or hung parliament.

Goldman Sachs, the US-owned investment house, says that the Tories retain the credibility of having taken sterling into the ERM and would not be likely to devalue; a hung parliament's uncertainty would depress the pound while a Labour government would introduce market worries about devaluation and spending, in spite of the trust inspired by the Scottish members of Labour's front bench.

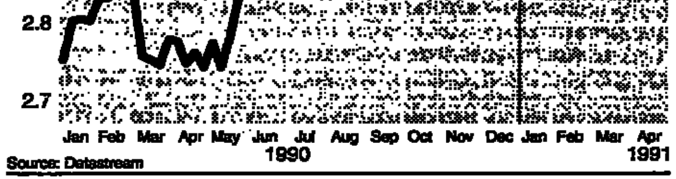
An October election would produce much the same result, while one left till June 1992 would be likely to be held against a background of 4 per cent inflation and 10 per cent interest rates.

With either a Tory or Labour win, "the sterling/DM exchange rate's most probable path is very stable for the next six months," says Goldman Sachs.

Rachel Johnson

Sterling

DM per £



Source: Datastream

Free market: currency convertibility is essential (Photo: Anthony Robinson)

Martin Wolf on the monetary changes in eastern Europe

Polish zloty shows the way

CONVERTIBILITY of the eastern European currencies into foreign currencies goes with economic reforms like a horse with a carriage: it serves little useful purpose in isolation, but is essential if domestic reform is to be pulled along.

As Brigitte Granville remarks in her study of currency convertibility in Poland between 1957 and 1990, "the real objective is not convertibility per se, but the creation of a free environment for economic agents."

Aiming at currency convertibility while maintaining the centrally planned economy would be folly. If Leviathan is to set prices and quantities, it cannot permit its citizens to undermine its plans via the arbitrage opportunities of foreign commerce.

Once the decision to move towards a market economy has been taken, however, a degree of currency convertibility is among the first steps, for three reasons:

- combined with liberalisation of commercial policy, it forces the introduction of world prices into the domestic economy and curbs domestic monopoly power;
- it can help control inflation;
- it encourages import of foreign capital, technology and management.

Of these, the first, which demands convertibility on current account, is fundamental. For a small economy, (although, as the Soviet Union has discovered, for larger economies too), a rational pattern of prices is the prices at which it can trade. Only when those prices are the domestic prices will a profit-seeking economy specialise efficiently. With international competition imported via current account convertibility, domestic monopoly power will also be limited.

Currency convertibility, again on current account, can also be an element in economic stabilisation. A fixed exchange rate determines the domestic nominal prices of internationally competitive goods at the levels set abroad. In this way, the exchange rate becomes the "anchor" for stabilisation.

Without alternative anchors, particularly domestic monetary policy, the exchange rate is an effective, if sometimes brutal, instrument of disinflation. But domestic monetary policy must follow the lead of the exchange rate, which normally requires the elimination of the budget deficit as well.

Finally, convertibility, on capital as well as current account, is an element in facilitating the required import of foreign capital and technology. Not only must foreigners be able to repatriate interest, profits and dividends, all of which relate to the current account of the balance of payments, but they also need to purchase domestic assets with foreign exchange and, in the end, convert it back again when wishing to repatriate their capital.

Currency convertibility can be taken further, to embrace all capital and current transactions for all holders of the currency. One argument for such freedom is that otherwise there will be leakage and fraud.

Some would argue that freedom on capital account can facilitate external stabilisation as well. But for economies as distorted and as inflation-prone as those of eastern Europe, this must be regarded as doubtful. Indeed, in those circumstances convertibility on capital account can be destabilising.

Fortunately, the experience of the advanced industrial countries suggests that freedom on capital account is not a necessary condition for market-led economic development.

That is the view of the government of Poland, the country which has taken reform furthest (apart from the unique case of eastern Germany). It has not embraced complete currency convertibility. But it has gone far in that direction.

On January 1 1990, the zloty, then subject to hyper-inflation, was devalued by 31.6 per cent and fixed at 9,500 zlotys per US dollar, where it has remained ever since.

Domestic enterprises may buy and sell foreign exchange freely at that rate for current purposes, other than for payment of interest, profits and dividends. Residents can buy foreign exchange for current purposes (but not to purchase assets abroad) through officially sanctioned foreign exchange counters. The rate on the latter is, in theory, allowed to float freely; in practice, the authorities have managed to keep the two rates close together since January 1990.

Companies with foreign participation are also to enjoy convertibility on both current and capital account, in order to repatriate 100 per cent of profits after tax, salaries of foreign employees and sums due from the sale or liquidation of the company or of equity holdings in the company.

How far do these policies go towards meeting the three objectives of currency convertibility?

As well as eliminating virtually all quantitative restrictions on trade and reducing tariffs to an average level of only 4 per cent, Poland has gone a long way towards the successful import of global relative prices. That success has been bolstered by the achievement of a trade surplus in convertible currencies in 1990.

Poland has also made progress towards price stabilisation, largely because the fixed exchange rate has been backed by a tight budget and monetary policy. Nevertheless, inflation continues to be well above rates in Poland's main trading partners, partly because the exchange rate was initially over-devalued and partly because of the absence of a competitive response from state enterprises.

From a monthly peak of 80 per cent in January 1990, inflation was brought down to a trough of 1.8 per cent in August, but has since been running at an annual rate of around 100 per cent. This sets a large question mark against the success of stabilisation.

Finally, in spite of the incentives given for the import of private capital and know-how, there has so far been little foreign investment. At the end of 1990, some $160m had been invested in the joint ventures then in operation.

Currency convertibility is an essential component of the free convertibility of money into goods, services and assets that is a market economy. The case of Poland suggests that changes can be introduced rapidly if the government is determined to move on all fronts. But it also suggests that sustaining those changes will be difficult, just as reaping the full benefits will take time.

* *Convertibility and Exchange Rates in Poland: 1957-1990, RIIA Discussion Papers 33* (Royal Institute of International Affairs, London, 1990).

London, Tokyo and New York dominate in their time slots

'Big three' battle it out

A FINANCIAL market which never closes, knows no national boundaries and is beyond the control of governments; such is the popular image of the foreign exchange market. But this is only half true.

It is also a market where a large proportion of the business is divided between three large centres, each striving to expand their share of business in the world's largest market.

London, Tokyo and New York together account for two-thirds of total foreign exchange business. In the 24-hour market, these three dominate dealing in their own eight-hour slot.

London is the major centre in the European time zone, Tokyo in the Asian and Pacific basin and New York in North America. For the big three, it is dominance in their own time zone which accounts for their success.

Nevertheless, there is competition between the big three and it is at its most intense when the markets briefly overlap. The ranking of the three is one of the hottest conversation topics in the market.

The last official survey was conducted in 1989 by the Bank for International Settlements. It estimated a global net daily turnover of $640bn, divided between the UK (daily turnover $187bn), US ($129bn) and Japan ($115bn). The remaining $311bn divided between another 11 centres, with Switzerland accounting for $57bn, Singapore $55bn and Hong Kong $49bn, with the others lagging behind.

It is impossible to be precise about what has taken place since the 1989 survey, although some important trends can be identified.

Foreign exchange managers say that since the 1989 survey, London has maintained or even increased its dominance in currency trading. But Tokyo has caught up with (and possibly overtaken) New York as the second largest centre and appears to be growing at a faster rate than London and New York.

"There is no doubt that London still remains the largest market for both inter-bank and corporate currency business", says Mr Doug McGregor, senior manager of corporate services at Barclays Bank.

According to Mr McGregor, Barclays' gross turnover in foreign exchange has increased to a daily average in the fourth quarter of $19bn, compared with $16bn at the time of the BIS survey.

This has taken place in spite of the dollar trading for much of the time in a steady range against the major currencies. London, after all, has built its reputation as the largest centre in which to trade dollars.

In spite of the relative stability of the dollar, total foreign exchange turnover has not fallen. In fact, foreign exchange managers say it is still increasing. This points to the dynamism of the currency market. In 1989, nearly 90 per cent of deals were conducted in dollars.

Foreign exchange traders have responded to the relative stability of the dollar by developing a range of different currency rates to deal in, notably the D-Mark/yen, D-Mark/Swiss franc and D-Mark/sterling. There has also been a growth of interest in the Canadian and Australian dollars.

The growth in European currency trading has also been helped by the lifting of the remaining foreign exchange controls in France, Spain and (partly) Italy.

London's ability to develop in this area has allowed it remain the largest foreign exchange centre. According to Mr Christian Dunis of Chemical Bank, these cross rates can sometimes account for up 50 per cent of the day's trading, which is an important change on 1989.

This has partly been at the expense of other European financial centres. Increasingly, European central banks have to monitor the movements in the London market. Currency dealers say some European central banks have become frustrated at the lack of liquidity in their own national centres.

Their important interventions in the currency markets, required by membership of the European Monetary System, are beginning to take place in London. Today, a large part of the market in French francs, Swiss francs, lire and pesetas is in London.

The main exception to this seems to be the yen/mark rate, which has grown in interest and is probably now in top five most actively traded currency rates. This would appear to be a truly global market, with turnover split fairly evenly between London, New York and Tokyo, although Tokyo probably has the edge.

However, the dollar remains the world's most important currency and dominates the market. The dollar/mark rate is still the busiest exchange rate, closely followed by dollar/yen. Dollar/sterling, dollar/Swiss franc and yen/mark take third, fourth and fifth places.

The importance of dollar/yen and the growth of yen/mark has increased Tokyo's importance. Although Japan's economy still has some way to go before it overtakes the US, its funding of US deficits and growth in exporting has given the Tokyo currency markets a tremendous boost.

The next BIS survey is likely to confirm New York's relegation to third place. As currency traders know, New York is active during the morning while Europe is open, but during the afternoon the market quietens, spreads widen and rates become more volatile.

Foreign exchange managers believe New York continues to grow in size. The problem is that the importance of Japanese financial institutions is allowing Tokyo to grow faster, while London benefits from the interest in European currencies. But New York lacks new growth areas which will allow it to keep up with Tokyo.

New York's difficulties are compounded by weaknesses in the US financial system. Corporate and banking customers are increasingly paying attention to the credit rating of the banks they do their foreign exchange business with.

For a large company wanting to hedge its currency exposure one or two years forward, this is becoming an important factor. It does not just affect the New York market. Many US banks have large foreign exchange operations in London, and dealers say there are dwindling number of players in the London market willing to deal in large currency blocks.

Jim McCallum

FOREIGN EXCHANGE MARKET TURNOVER AND FOREIGN TRADE, April 1989 ($bn)

Country	Net turnover (monthly total)	Foreign trade[1]
United Kingdom	3,740	54.4
United States	2,580	101.6
Japan	2,300	61.5
Switzerland	1,140	13.7
Singapore	1,100	8.0[2]
Hong Kong	931	12.0[2]
Australia	570	9.7
France	520	44.3
Canada	300	25.0
Netherlands	260	22.9

[1]Monthly average for first quarter. [2]Exports and imports of goods, April 1989.
Source: Bank for International Settlements

CHART ANALYSTS

The trend spotters

"OLD men in dirty white raincoats" was how a famous entrepreneur once described chart analysts, or so the legend goes.

Exactly what the boffins of the financial markets had done to upset this particular financier is not known. But they had probably used their curious art to predict that one of his investments was on "a downward trend."

To those with little familiarity of chart or technical analysis, much of it must seem like mumbo-jumbo. Strange lines drawn on charts reveals such things as "head and shoulder" formations. They also claim to do the impossible: tell the future course of financial markets.

However, for those with an interest in financial markets, particularly foreign exchange, the growth in influence of technical analysis during the last five years has been too great to ignore.

One measure is the membership of the Society of Technical Analysts, which with 650 members is the largest chartists' organisation in the world. STA chairman Mr John Bream says that 10 years ago an STA "teach-in" would attract 15 to 20 people. Now it is 80-100.

The dynamic growth of the foreign exchange market during the last decade has led to renewed interest in the all-important question of what determines a particular currency's level.

Over a period of years, the economic fundamentals of a country are what counts; for example, the declining competitiveness of American industry over the past ten years has led to a long-term decline in the dollar.

The same has been true for sterling over an even greater time span.

Economists have developed a theory which attempts to determine a currency's level based on economic fundamentals.

It is called purchasing power parity (PPP) and calculates a currency rate on the basis of the different inflation levels prevailing in the two countries concerned.

PPP is a useful tool for identifying trends over a number of years. However, it is of more limited use in determining where a currency is likely to be over a period of days or weeks. In fact, some chart analysts say that a currency can be out of line with its PPP value for up to five years.

Undermining the importance of economic fundamentals on a short-term basis is the size of the currency market. With more than $180bn changing hands each day on the London market alone, and the world currency market 32 times greater than world trade, currencies often bear little relationship to underlying changes in the real economy, which by their very nature move at a far slower rate.

Until the mid-1980s, corporate users of the foreign exchange market would use PPP and other economic reports to analyse the market and estimate where they were likely to move in the future. However, the experience was not always a happy one. Many lost money on the basis of PPP predictions.

For an economist, if the currency failed to move in the direction predicted, the underlying assumptions would have to be revised. However, chart analysts can constantly revise their opinions.

The influence of technical analysis cannot be ignored

It was this experience which triggered a greater interest in technical analysis, particularly in broking houses which were advising the corporates. Few of today's foreign exchange managers do not have a knowledge of the trends which chart analysts have identified and the important points which have to be breached to confirm that trend.

Essentially, chart analysis is a study of the balance of buyers and sellers in a market and the sentiment which follows from that. When a price breaks a certain level it is an indication that the balance between buyers and sellers has changed. This determines the sentiment in the market – bullish, bearish or neutral – which in turn will influence the way news items are perceived.

So how do analysts apply this to their day-to-day work? Mr Michael Feeny of Sumitomo Bank explains how he uses chart analysis in foreign exchange dealing. "The first thing I do is run off charts showing the movement of different currencies over the past 48 hours, week and six months. I then look at the charts and try to establish trends by drawing lines between troughs and peaks.

"Once you have established a trend then you know whether a position you are taking is going to be with or against the trend – which is important to be aware of. The next thing is to look for consistent levels of support or resistance to movement.

"When a price has stopped falling it can mean there are lot of buyers there. If the currency succeeds in breaking through that support it means the buyers have been satisfied and it may be set to fall sharply. And by implication you expect it to fall to the next support level."

Mr Feeny says that these technical factors account for virtually 100 per cent of one day's trading movements. The only exception comes when there is a dramatic news item, such as Iraq's invasion of Kuwait. Over a two week basis, movement is still technical; after a month, its importance is declining but still the best indicator of movement; after three months, it is 50 per cent technical and 50 per cent economic fundamentals; over six months, fundamentals have become more important; and by one year it is all fundamentals.

There are also longer-term trends which are caused by economic changes and can be determined by technical analysis. But as most companies are not interested in two or three year currency positions, this tends to be used less.

Many traders use a mixture of personal judgement and technical analysis to determine their day-to-day market decisions. A September 1989 study by the Centre for Economic Policy Research found that some chartists performed extremely well compared to a range of alternative forecasting procedures, but that they typically failed to predict turning points in the market.

The use of judgement along with technical analysis makes this method more of an art than a science. This was shown up in the CEPR study, in which it tantalisingly revealed that one chartist, who it called "M", had outperformed not only the alternative forecasting methods but also all the other chartists. To this day, M's identity remains a mystery.

Tough talking: dealers 'don't want to be automatons', says Reuters

Developments in dealing technology

Telerate prepares to do battle with Reuters

LISTEN to Mr Peter Taylor and you could be forgiven for thinking that war had broken out. Telerate, whose European sales and marketing effort he heads, "are starting to surround Reuters". The official outbreak of hostilities comes in June, when an enhancement to Telerate's The Trading Service (TTS) will "do Reuters an awful lot of damage", according to Mr Taylor.

Launched 18 months ago, TTS automates the "spadework" in a foreign exchange deal and ploughs data down to the back office, allowing managers to monitor costs. It has not been a success, however.

TTS version two will offer "the best of everything", promises Mr Taylor. It will need to, if it is to convince those such as Mr Rob Lowey, senior foreign exchange manager at Hongkong & Shanghai Bank in London, who were unimpressed by TTS' debut.

"We installed (TTS) on an informal basis, running alongside Quotron & Reuters' Direct Dealing Monitor", recalls Mr Lowey (Quotron rivals Telerate as a technology supplier).

The bank's aim was to pick a secondary system to run alongside Reuters. But Telerate had incorporated a remarkable innovation into TTS. Screen-based messages between dealers followed a set format. Intercontinental pleasantries were a thing of the past with TTS, as dealers could not key in greetings to colleagues in New York – the system dictated their words.

"You need comfort in a fast-moving market", says Mr Lowey, and his team did not feel comforted by a product that took the words out of their mouths. Hongkong & Shanghai Bank's London dealers rejected TTS after a three-month trial. Telerate, which had sunk upwards of $60m into developing TTS and its associated telecommunications support, were not paid.

Mr Taylor describes the upcoming improvements to TTS as "multi-format trading". What this means is that dealers will break out of the fixed format at the flick of a "conversation button". The new, as yet anonymous product, will be promoted by what Mr Taylor promises will be "incredibly aggressive pricing". Any institution installing more than 10 positions will get TTS at one-third less than the price of Reuter's system.

Mr Taylor defends TTS with the observation that 3 per cent of foreign exchange deals lead to some error or require further human intervention before the deal can be completed. Erasing the messy notes between dealers was supposed to wipe out these errors and save costs.

Reuters, however, are quietly confident. The company has endured years of complaints about its effective monopoly of market data feeds. It argues that its pricing policy is merely to keep in line with inflation. Critics counter that Reuters contracts are pricy and almost impossible to terminate. Subscription to Reuters is estimated at £14,000 per dealer per year.

Reuters' attachment to video feeds has also been a source of criticism. Traditionally, subscribers to Reuters or Telerate bought the service in the form of fixed pages of data. The arrival of digital feeds in the 1980s delivered raw data that in-house computers can rearrange to suit the user's needs. Technically literate dealers praise digital technology, but there remains a substantial demand for simple video feeds. Prism, a colour video switch introduced two years ago by Reuters, has sold well.

Phase 2 of Reuter's Dealing 2000, itself an enhancement to the traditional Reuter's Monitor Dealing Service, is imminent. With Phase 2, dealers will have electronic matching - inserting an order for a currency, amount and price. The central computer will match bids and select the best deal; automatic dealing, but on a strictly optional basis and from the one information provider no dealer can afford to be without.

A Reuter's spokesman picks choice as a prime attribute of Dealing 2000 – including the option to hold familiar conversations with foreign exchange sparring partners on the other side of the globe. Reuters believe that this is where Telerate's offensive foundered. Of TTS, the Reuters spokesman observes that "dealers wanted automation, (but) they didn't want to become automatons".

Like Telerate and its decision to incorporate the popular Lotus 1-2-3 spreadsheet in its products, Reuters has acknowledged the importance of familiar PC software. Microsoft's Excel spreadsheet now has a formal link to the Reuter's Money 2000 information feed.

California-based Quotron also recognises the popularity of the PC. Its FIX Trader runs on a PC using a large Digital Equipment Vax machine as the "engine". Since its launch two years ago, FIX Trader has been sold to 90 banks, with between 10 and 20 more signing on every month.

"Our system lets you choose between free and fixed format. We have had the benefit of learning from others' mistakes", says a Quotron spokeswoman.

What the banks have learned from recent history is to watch costs. Foreign exchange dealers are expensive, and it helps to know which of them is making money.

Dublin-based software house Kindle has been selling applications to major banks since 1979. It recently polled 75 customers and sales prospects to find out what they wanted from foreign exchange technology.

Ms Rosemary Bowe, a former foreign exchange spot dealer with the Bank of Ireland who is now Kindle's senior banking consultant, explains that almost all of the 75 banks came up with "exactly the same requirement" – they wanted to cost the dealers position by position. "The main thing was to know each position by the end of the day, and the profit and loss by the dealer", she says.

This emphasis on costing is hardly surprising. But what preoccupies the suppliers is how to keep up spending on technology when customers are prepared to shed valuable staff. Kindle's answer was to buy in the Strategy Treasury Online Risk Management System (Storm), a decision support system for dealers, from a US company. Kindle decided that since "we don't have the money or the time to develop our own deal capture and processing system", it made sense to buy in a product that had proved itself in the market.

Large information providers find it difficult to admit that an outside program is what the customer wants. But the risks involved in following internal convictions are obvious from the TTS fiasco. War produces fierce propaganda, but it also causes casualties.

Michael Dempsey

Derivatives can be useful tools, writes **Tracy Corrigan**

Competition helps cut costs

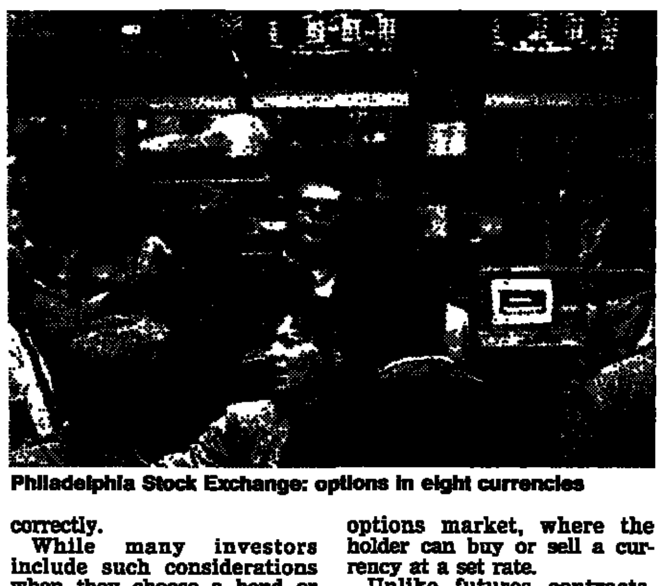
THE RECENT £150m loss sustained by Allied-Lyons through its use of derivative products in the foreign exchange market may have detered some companies from investigating the benefits of such instruments.

But derivative products can be useful tools for both corporate treasurers and fund managers faced with increasingly daunting levels of foreign exchange risk. Competition among banks for a share of this lucrative market has fuelled innovation and reduced costs.

The growth of business in overseas markets over the last decade has forced company treasurers to pay greater attention to foreign exchange risk. Currency risk management is no longer relevant only to exporters and importers, since many companies now have overseas operations, and currency volatility is no longer seen as an adequate excuse for tumbling profits.

Derivative products allow companies to fix costs and income flows in advance, which is particularly valuable at a time when recession is biting into margins.

European fund managers have generally been slow to get involved in derivative products, often considering such instruments to be speculative. However, as markets become more international they have been forced to take more account of foreign exchange risk, as well as of the potential rewards of picking currencies correctly.



Philadelphia Stock Exchange: options in eight currencies

While many investors include such considerations when they choose a bond or equity market, more sophisticated investors use derivative products to separate the currency component from the bond or equity market view they are taking. For example, a fund manager who is bullish on the US dollar, but thinks the US Treasury market has run out of steam, can be in overweight in dollars, but underweight in dollar bonds. The overweight currency position can be achieved by buying options.

There are two main markets for hedging foreign currency exposure: the forward market, where companies buy or sell currencies forward and the options market, where the holder can buy or sell a currency at a set rate.

Unlike futures contracts, options give the purchaser the right, rather than the obligation to buy or sell. This means that a treasurer can use an option as insurance against adverse changes, but leave it to expire if such protection proves unnecessary.

The technology surrounding straightforward currency options - to buy or sell a currency at a set rate - has become widely understood, and such options are now considered to be "commodity" products, for which high premiums can no longer be charged.

In addition to these, new and hybrid structures are becoming more widely used.

For example, the "range forward" is a forward contract which allows a company to set an upper and lower limit on an exchange rate. The structure is legally structured as a forward contract, but is the technical equivalent of buying a put and funding that position by selling a call option.

The advantage is that it allows a company, which thinks a currency is set to rise but requires some downside protection, to keep some of the benefit if the currency does improve (unlike an ordinary forward contract). At the same time, banks do not charge an upfront premium premium (as they do for options).

A "participating forward" combines features of forward contracts and option, but again there is no upfront premium.

There is a set floor, as for an option, but there is also some participation in any gains - perhaps 50 per cent of the benefit is received by the company, which the other 50 per cent is given up to the bank as, effectively, the premium.

A number of banks have also been active in issuing currency warrants,which are long-dated currency options. These warrants have often been sold to retail investors, but there has also been some institutional participation too. However, such warrants have mostly been expensively priced.

Another type of structure is the "average-rate" option, which gives holders the right to buy or sell an underlying market not at the average price over the duration of the option.

Unlike the fixed-income market, foreign exchange derivatives business is are dominated by the vast over-the-counter market, where volume is impossible to measure. (Options to buy or sell an underlying market which are not listed on an exchange are called over-the-counter, or OTC, options. They are often tailored to suit specific needs and are not actively traded.)

In the US, however, the Philadelphia Stock Exchange and the International Monetary Market in Chicago are both active in currency derivatives. The Philadelphia exchange lists options in eight currencies, relative to the dollar, the most actively traded of which is the D-Mark contract which traded 41,000 contracts daily on average in March. The exchange is currently waiting for Securities and Exchange Commission approval to list D-Mark/yen, sterling/yen and sterling/D-Mark contracts.

The IMM lists six foreign currency futures contracts, and also options on futures. The most actively traded contract is the D-Mark future which had an average daily volume of nearly 40,000 during the first quarter of 1991. The IMM will soon set a date to start trading six cross-rate contracts, for which it has already received approval from the Commodities and Futures Trading Commission.

The London International Financial Futures Exchange suspended all currency contracts a year ago, blaming "minimal activity, mainly due to the healthy interbank market."